J. TREVOR & SONS
Property Consultants
85 LONDON WALL EC2M 7AD
Telephone: 01-628 0735

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NEWS SUMMARY

GENERAL

China warns of war risks

China has accused the U.S. and Soviet Union of duplicity in their disarmament proposals and has predicted that one of the super powers will eventually go to war against the other.

Mr. Huang Hua, China's Foreign Minister, told the UN special session on disarmament that Russia was the "most dangerous source of a new world war" and was likely to be the "chief instigator" of another global conflict.

"One superpower is bent on expansion," he said. "The other has its vested interests to protect. As the struggle intensifies, they are bound to fight it out some day."

Terrorist inquiry

After a storm of outrage over the freeing of alleged terrorist Till Meyer, West Germany's Justice Ministry has announced the arrest in Yugoslavia of four people wanted for last year's series of murders of prominent people.

West Berlin's mayor has asked for a full report on security at the city's Moabit Prison after Meyer's weekend escape. Page 3

Policy query

Tory MPs are to ask the Shadow Cabinet for a definitive statement on the party's policy on industrial relations and the unions. A Tory report leaked to The Economist put forward proposals for denationalisation and listed unions with which the Conservatives could have a showdown. Back Page

Eleni V delay

Royal Navy explosives experts were waiting yesterday for thick fog to clear before blowing up the remains of the Greek tanker Eleni V.

War crimes retrial

Dutch Supreme Court quashed the conviction of millionaire art collector Pieter Menten on war crimes charges and ordered a retrial. He was found guilty last December of involvement in the mass execution in 1941 of 26 Polish Jews. Page 3

Labour lead

Labour emerged with a 29 per cent lead over the Scottish Nationalist Party in a Glasgow Herald poll on voting in the Hamilton by-election.

Briefly . . .

Leicester premium bond number SXK 758595 won weekly £50,000 premium bond prize.

Afghanistan Government has allowed formation of the country's first trade unions.

A diamond the size of a matchbox and worth more than any other gem in modern history has been found at Cullinan, near Johannesburg. De Beers has sold it to an unknown buyer for "several million pounds."

Eritrean rebels have evacuated the town of Mandefera after heavy Ethiopian raids which killed at least 100 people.

Canadian Government has approved adoption of a white elephant advertising symbol for the Mirabel airport north of Montreal—voted by passengers as the country's least popular airport.

British golfer Nick Faldo won the Colgate PGA championships at Royal Birkdale. Page 10

British businessmen have launched a campaign for a million signatures on a petition to stop Britain going metric.

Italy's World Cup team have complained that the beds in their Buenos Aires hotel are too short. Earlier, the French team complained that the Italians had been given the best rooms. World Cup preview, Page 10

BUSINESS

N. Sea oilfield costs go up

● PIPER and Claymore North Sea oilfields will cost the consortium headed by the Occidental group which develops them an extra £215m in development costs, according to an industry report.

The report comes at a time when recoverable reserves are being down-graded at Claymore. Back Page

● OECD member countries are meeting in Paris to discuss measures to give a moderate boost to economic demand.

Overall growth for the OECD area this year is estimated at 3.5 per cent, and a sharp rise in unemployment is expected unless action is taken. Back Page

● OVERSEAS earnings of Britain's main service industries should grow by about 9 per cent this year, according to the Committee on Invisible Exports. Page 2

● INDUSTRY SECRETARY and the Agriculture Minister are to be asked to take action on alleged EEC discrimination against New Zealand produce, following reports that a £40m shipbuilding order from New Zealand will go to Poland, rather than to UK yards, as Poland has agreed to take more New Zealand produce.

Groceries cost more

● PRICE of meat and vegetables rose sharply during May, and the Financial Times grocery index rose 1.34 points to 103.11. Page 7

● SCOTLAND'S 7,000 bakers are to ballot this week to decide whether their pay claim should go to arbitration or whether an official overtime ban should be introduced. This follows five weeks of unofficial action in the West of Scotland which has curtailed supplies. Page 6

● POLAND'S trade deficit with Western industrial countries was cut by half last year to $1bn, according to the German Institute of Economic research in West Berlin.

● UK TYRE manufacturers are to seek anti-dumping measures from the EEC against Eastern bloc tyres imported into Britain. Back Page

Early loan repayment

● POST OFFICE is to repay a $200m loan from the First Chicago merchant bank three years before the loan falls due in 1981. Back Page

● GOVERNMENT plans new legislation to control the building societies to bring the UK system into line with EEC requirements. Page 4

● UK MANUFACTURING output shows no significant sign of reviving, the CBI warns in its latest monthly trends inquiry. Total orders have increased, and output expectations are better, but none of the indicators point to rapid growth in the months ahead. Back Page

● EEC ENERGY Ministers will meet today to decide on a five-point energy package which could involve the Community in spending £900m in the next five years. Page 3

● SPIRIT clearances from bond rose nearly 40 per cent in the first quarter of 1978 compared with the depressed first three months of last year, according to Customs and Excise statistics. Page 6

● BRITAIN'S mountain of surplus barley, the 20,000 tons of grain bought off the market earlier this year under the EEC intervention support system, is to be sold to meet current shortage. Page 4

Americans accuse Russia as NATO Summit gathers

BY REGINALD DALE: WASHINGTON, May 29

Western leaders gathered in Washington today for their two-day spring NATO Summit, starting tomorrow, amid signs of a toughening in U.S. attitudes toward the Soviet Union.

In a weekend television interview Mr. Zbigniew Brzezinski, President Carter's national security adviser, accused Moscow of violating the code of détente, and called for "an international response" to Soviet and Cuban military activity in Africa.

Mr. Brzezinski, who has just returned from a visit to China, gave a clear warning that Washington would form closer ties with Peking if Moscow did not exercise restraint. The U.S. and China had "parallel interests," he said.

In a further gesture of American disapproval of Moscow's policies, Mr. Joseph Califano, the U.S. Secretary of Health, Education and Welfare, is likely to postpone a visit to Russia in protest at the maximum sentence imposed on Dr. Yuri Orlov, the dissident physicist, for anti-Soviet activities.

Mr. Califano had been due to visit Moscow on June 10.

Mr. Brzezinski's remarks come as the Western allies prepare to give the go-ahead to strengthening and streamlining of NATO defences to meet the growing military challenge of the Warsaw Pact in the next decade and beyond.

The NATO leaders meet against a background of efforts by the two super-powers to conclude a new strategic arms limitation agreement (SALT II).

After a week-end meeting in Washington of Mr. Carter and Mr. Andrei Gromyko, the Soviet Foreign Minister, both sides claimed progress had been made on the agreement, almost eight months overdue.

It was clear no major breakthrough had been made. Mr. Gromyko will hold further talks with Mr. Cyrus Vance, the U.S. Secretary of State, in New York on Wednesday.

Although they do not necessarily reflect the views of the entire Administration, Mr. Brzezinski's comments are thought here unlikely to improve the atmosphere for the SALT negotiations. Nor are the Russians likely to be pleased by his disclosure that in Peking he gave the Chinese a detailed briefing on the talks' progress.

Last week Mr. Carter, while stressing the continuing importance of a new SALT agreement, warned that Soviet policies were likely to make its acceptance by the U.S. Congress more difficult.

Mr. Brzezinski said there had always been competitive and co-operative aspects in U.S.-Soviet relations. The competitive aspects were now surfacing "due to the shortsighted Soviet conduct in the course of the last two or so years."

It troubled him that Russia "had been engaged in a sustained and massive effort to build up its conventional forces, particularly in Europe, to strengthen the concentration of its forces on the frontiers of China, to maintain a vitriolic propaganda campaign against the U.S., to encircle and penetrate the Middle East, to stir up racial difficulties in Africa, and to make more difficult a moderate solution of those difficulties, perhaps to seek more direct access to the Indian Ocean."

In another U.S.-Soviet incident at the weekend Mr. Gromyko publicly claimed that Mr. Carter had acted on incorrect information in criticising Cuban support for the recent invasion of Zaire by Katangese rebels.

The White House sharply retorted that the President's information was correct.

The West closes ranks Page 12

S. Africa foreign company curb

BY QUENTIN PEEL

JOHANNESBURG, May 29.

DRAFT legislation which could be used to prevent companies operating in South Africa from complying with orders of foreign Governments, as well as the judgments of foreign courts, was tabled in the South African Parliament today.

The Protection of Businesses Bill, presented by Mr. Chris Heunis, Minister of Economic Affairs, cuts directly across the UK Government plan for the subsidiaries of UK companies in South Africa to report regularly on their industrial relations practices and black wage rates.

Observers here believe it could also be used to prevent the subsidiaries of foreign companies from obeying the restrictions of the UN arms embargo on South Africa.

The Bill says that no order given by a foreign court or Government shall be enforced in South Africa without the Minister's permission.

Nor shall any person in South Africa supply any information about business operations either inside or outside the country without such permission.

The legislation is a combination of two previous laws, and does not introduce any new principle in the protection of South African companies. But observers believe that the scope of the law will be considerably wider than before.

Subsidiaries of British companies have been allowed to report details of their operations only with Ministerial permission since 1974.

In effect, that has meant that only those companies with more than 50 per cent British interest have been allowed to do so.

The new Bill would give Mr. Heunis an opportunity to reconsider that ruling and perhaps extend it to all companies with local operations

The other existing law, the Reciprocal Enforcement of Civil Judgments Act, already protected South African businesses from international court orders.

But a provision for bilateral agreements between South Africa and other countries appears to have been dropped from the latest legislation.

The provisions of the new Bill will apply to virtually every sphere of economic activity, including the production, import, export, refinement, possession, use, sale or ownership of "any matter or material . . . whether inside, outside, into or from the Republic."

The proposal that no "order or direction . . . emanating from outside the Republic" shall be enforced without Ministerial permission, is seen here as cutting across directions by Western Governments to international companies not to supply any military material to the South African Defence Force from their South African subsidiaries as well as from non-South African sources.

Hill Samuel loses battle over Herstatt

BY GUY HAWTIN

FRANKFURT, May 29.

ANOTHER chapter in the saga of the Bankhaus Herstatt collapse was closed today, when the West German Federal Supreme Court upheld the Bundesbank's appeal against the award of damages to Hill Samuel, the U.K. merchant bankers and Merck, Finck and Co., a leading German private bank.

In its judgment, the court over-turned the decisions of two lower courts which were highly critical of the Bundesbank's handling of the affair.

Two years ago, the Higher Regional Court in Frankfurt rejected the Bundesbank's appeal against a Civil Court's decision to award Hill Samuel DM10m (£2.3m) plus costs against the Central Bank, for failing to halt the clearing of a foreign exchange transaction although it already knew that Herstatt had collapsed.

Hill Samuel, which sued through its Frankfurt-based subsidiary, said that it was accepting the Supreme Court's judgment as final.

Sir Robert Clark, the chairman, said that no other legal channels were open to it.

There was no official comment from Merck Finck and Co., to which the lower courts had awarded damages of DM 880,000 plus costs.

Judgment

According to Hill Samuel today, it had recovered some £9m of the original £11m foreign exchange transaction with Herstatt. Its net losses, including lost interest and legal costs, amounted to £1.2m after tax relief.

No further provisions for this loss was necessary as the money had been set aside before March 31 last year.

In it judgment, the Federal Supreme Court said that the Bundesbank was under no obligation to halt clearings which would hasten the collapse of a bank.

Such responsibilities lay within the jurisdiction of the bankruptcy courts and the Federal Banking Supervisory Office.

The foreign exchange clearing system was operated in the public interest and responsibility for the functioning of transactions lay with the participating banks and not the central bank.

On the matter of the timing of the closure, the court ruled, in effect, that someone was bound to suffer, whether the closure came earlier or later. It was not for the Bundesbank to demonstrate bias and decide who was the most worthy of suffering.

In its judgment, the Federal court's decision has taken the banking community by surprise.

One banker said today: "There are no recorded cases of the central bank being twisted by the tail, although there are plenty of examples of the reverse."

Observers have said for some time that the case seemed to be going against both Hill Samuel and Merck Finck, despite judgments of the two lower courts.

Indeed, relief at this, as a Supreme Court decision upholding the lower courts' judgments would have opened the way for a whole host of cases that could have seriously hampered the central bank's operations.

Original

Even so, the Supreme Court's judgment is being greeted with cynicism in the foreign banking community here, particularly in view of the extremely sharp criticism levelled at Bundesbank officials by the lower courts.

The Frankfurt Civil Court, in making the original award of damages, said that the Bundesbank's action four days prior to closure in drawing three major banks into moves to save Herstatt—which finally collapsed with losses of over DM 1bn (about £0.3bn) gave them an unfair advantage over other banks when rescue talks finally failed.

This comment strikes at the heart of the West German system of rescuing companies in financial difficulties.

In rejecting the Bundesbank's appeal against the Civil Court's decision, the Frankfurt Higher Regional Court agreed with most of its findings.

It said that the Bundesbank had a duty to warn and protect all banks involved in the foreign exchange clearing as soon as it knew that Herstatt was insolvent and take steps to save it had finally broken down.

It had known that, at the latest, by 2.00 pm on June 26, 1974, although the closure was not finally announced until at least one and a-half hours later.

There could be no logical reason for treating a collapsed bank as if it were fully functional for longer than really necessary.

The court harshly condemned senior Bundesbank officials for not withdrawing Herstatt for the foreign exchange clearing operation on the day it closed.

It said: "The culpable negligence of the president of the Bundesbank (then Dr. Karl Klasen) and some Bundesbank directors in not doing this, has been held against the Bundesbank as if in the rejection of its appeal against the lower civil court judgment."

£ in New York

	May 29	Previous
Spot	$1.8160-8170	$1.8155-8165
1 month	0.55-0.35 dis	0.56-0.50dis
3 months	1.38-1.12 dis	1.25-1.15 dis
12 months	5.30-5.20 dis	5.45-5.25 dis

Print union chiefs in new talks to end disruption

BY PAULINE CLARK, LABOUR STAFF

GENERAL SECRETARIES of the four major print unions have agreed to meet at TUC headquarters on Friday at the start of what they see as a new concerted drive to restore order to industrial relations in Fleet Street.

The print leaders' concern to tackle the problem of repeated rebellions against union discipline among Fleet Street chapels follows last week-end's crisis on The Observer, when striking machine-minders decided to resume normal working only just in time to save Sunday's edition.

The Observer management, which had threatened national union officials with closure if disruption caused by an unofficial strike over manning levels continued, will also meet the same general secretaries later this week to review its position.

Mr. Brian Nicholson, joint managing director, said yesterday that senior executives would be seeking to discuss the history of the crisis and its implications for the future.

"There is an important principle to be established, which is the men's guarantee to their union of uninterrupted production," he said.

The general secretaries' talks at the TUC, which have been specially convened outside the TUC's printing industries committee machinery, have been prompted by what is seen as a new climate of co-operation by Fleet Street management.

Mr. Bill Keys, general secretary of the largest union concerned, the 200,000-strong Society of Graphical and Allied Trades, explained yesterday that union leaders had often been powerless to control members in the past, when managements of national newspapers gave in too easily and quickly to the demands of unofficial strikers.

Mr. Keys welcomed the strong stand taken by the Observer and said that the unions were being given their first real chance to become effective in Fleet Street.

"I think it is essential for management and unions to work together to bring back order.

"The Observer management in the latest crisis was the first to stand firm, and now the employers have thrown up the questions, we must set about finding the answers."

The Observer has so far stood its ground against a demand by 25 members of the National Graphical Association for manning levels to be restored to pre-1976 levels before the paper was taken over by the U.S. Atlantic Richfield oil company of America.

Mr. Jeffrey Dongworth, father of the machine-minders' chapel, said the full return to work on Saturday was decided "on the basis that other trade union livelihoods were in danger."

The paper is known to have lost between £4m and £4.5m since the American takeover.

But with the recent upward trend in circulation, Mr. Dongworth feels the paper's position has "changed significantly," and plans to pursue the claim with management.

Meanwhile, union leaders are also drawing encouragement from a similar strong stance being taken by the Mirror Group against National Graphical Association machine-minders, who have seriously disrupted production of the weekly Reveille magazine in pursuit of a pay claim.

● Merseyside's morning newspaper, the Liverpool Daily Post was back on the streets yesterday after disruptions which cost the entire 32,000 print of the city edition on Saturday.

After delays in getting the Welsh edition away, 14 members of the National Society of Operative Printers, Graphical and Media Personnel in the machine room asked for an extra hour's overtime pay, which management refused.

Later, there were five breaks in the paper rolls and production was cancelled.

Fresh attacks feared in Shaba

BY MARK WEBSTER IN KINSHASA AND DAVID WHITE IN PARIS

FRENCH AND Belgian aircraft stood by yesterday in case they were needed to ferry Europeans out of Zaire's Shaba province amid fears that further attacks would be launched by rebels on the copper town of Kolwezi.

The Zaire Government, anxious to quell rumours of a panic in the provincial capital of Lubumbashi, denied that the first refugees had already left for safety.

However, two plane-loads of women and children were flown out to Kinshasa on Sunday night and flights from Lubumbashi are booked solid.

The government explained that the Europeans were starting the summer holidays one week early, but observers in Kinshasa feel that the holidays may well become permanent.

Meanwhile President Mobutu of Zaire continued his anxious search for a foreign power willing to fill the security vacuum left by the withdrawal of the French legionnaires from Kolwezi.

He left Paris yesterday for Morocco as the legionnaire force was being re-grouped in Lubumbashi.

President Mobutu, who stayed almost a week in France while French troops established control over the rebels in Shaba province, is expected to seek military support from Morocco against further incursions on Zaire's southern borders.

The Paris evening newspaper, Le Monde, yesterday cited a senior Moroccan source as ruling out another solo intervention by Rabat.

Morocco sent 1,500 troops to help Zaire suppress Shaba rebels a year ago. France then limited its participation to logistic support in the form of transport aircraft.

The French embassy announced in Kinshasa yesterday that the last of the token force of 150 legionnaires left in Kolwezi had pulled out on Sunday night leaving the town protected only by 1,000-odd Zairean soldiers.

Most of the 650-strong legion unit had left Kolwezi on Saturday night and made its way to Lubumbashi. The remaining troops had barricaded themselves into the motel near the centre of the town with orders just to hold their ground.

Three companies of Belgian paratroopers have also moved to Lubumbashi from their base in Kamina. Early reports that they were there to assist with an evacuation have since been denied by the Zaire Government.

Reports from people who have just come from there suggest, however, that the town is extremely tense and that it would take very little to panic the European population into a mass exodus.

Left MP urges workers' co-ops

BY ELINOR GOODMAN

ORTHODOX IDEAS on nationalisation have had their day and should be replaced by new radical ideas about worker co-operatives, Mr. Norman Atkinson, Tribunite treasurer of the Labour Party and veteran advocate of State ownership, said yesterday.

Future prime candidates for public ownership did not, he said, lend themselves to conventional nationalisation. Instead the Labour Party should examine "forward-looking systems of co-operative self-management."

For a start, British Leyland should be turned into a fully-fledged worker-co-operative, he proposed.

This call, at the Co-op's annual congress in Scarborough, represents a major shift in the position of the Left and is the culmination of work done by various *ad hoc* committees within the Labour Party on how to deal with the problem of multinational companies.

It reflects growing dissatisfaction with what is seen as the bureaucratic centralisation of nationalised industries and could mean that worker ownership—rather than State ownership—will become the rallying call of Labour's Left in the pre-election period.

Mr. Atkinson, reaffirmed his belief in taking industry out of private ownership but said that the vehicle for achieving this in future should be worker co-operatives rather than old-style nationalisation.

Speaking to an audience which had long favoured more government help for the co-operative movement, Mr. Atkinson said the Co-operative Development

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Call to close ranks Page 4

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WORLD TRADE NEWS

Service industry earnings abroad should rise by 9%

BY DAVID FREUD

OVERSEAS earnings of the UK's major service industries should grow by about 9 per cent this year, according to the Committee on Invisible Exports.

In a report published today, the committee—which comprises major foreign exchange earners such as the insurance, banking and commodity trading industries—says more than half the predicted rise would be due to an increase in volume.

However, the report is less optimistic about the prospects for an expansion of world production and trade. It also suggests that inflation in the UK will continue to be higher than that of most of our competitors.

The report is based on a survey of organisations responsible for about 60 per cent of the UK's invisible earnings last year.

The airlines are expecting the biggest rise in earnings this year due to the recovery of traffic lost through industrial disputes last year, the favourable effect of currency movements on fuel costs and the effect on the volume of traffic of lower fares on some routes.

Lower fares are also expected to be a significant factor in attracting more tourists, and earnings from inward tourism are predicted to show a healthy rise.

There are differences in outlook about prospects in the insurance industry. Companies are the most optimistic about earnings, and brokers also expect an improvement.

However, respondents from Lloyd's of London look for a fall in earnings due to the effect of competition on premium rates and of inflation on claims costs.

All three of the banking groups participating in the survey, the Accepting Houses Committee, the Committee of London Clearing Banks and British Overseas and Commonwealth Banks Association, expected a rise in overseas earnings.

Consulting engineers expect earnings to grow as a result of an increased volume of business, although members of the construction industry predict only a small rise both in volume of work and earnings.

The export houses are fairly optimistic about earnings, though the shipping industry, Stock Exchange and commodity dealers all expect earnings to remain close to, or even a little below, last year's level.

Occidental in $1bn chemicals agreement

WARSAW, May 29.

OCCIDENTAL PETROLEUM of California has signed a preliminary agreement with Poland for two-way supplies of chemicals worth over $1bn, the Occidental chairman, Mr. Armand Hammer, announced here.

Mr. Hammer told a news conference that he had signed the agreement with Mr. Maciej Wiraszka, deputy chairman of the Polish State Planning Commission. It is understood that a final agreement will be signed in the next month or two.

Under the agreement, Occidental will supply Poland with 1m tonnes of phosphate rock annually and purchase 500,000 tonnes of molten sulphur annually over 20 years.

Since sulphur is currently worth about $67 per tonne delivered, and phosphate rock about $33 per tonne, the value of the deliveries roughly balances out.

Mr. Hammer said prices would be determined annually according to world market prices and it was hoped deliveries in both directions would start this year.

Mr. Hammer said Occidental would help Poland finance the opening of a new mine with a 500,000-tonne annual capacity, taking about three years to move into production.

Occidental will use the sulphur to make fertiliser, including superphosphoric acid, which it supplies to the Soviet Union in exchange for ammonia, potash and urea.

Poland will also use the phosphate rock, from Occidental's mines in Florida, to make fertiliser. The deal will provide one-third of Poland's phosphate requirements.

Reuter

Tokyo to urge restraint on export of cars to UK

TOKYO, May 29.

THE JAPANESE Government plans to increase pressure on Japanese car makers to cut back vehicle exports, a spokesman for the International Trade and Industry Ministry said.

He said the move was aimed especially at reducing exports to Britain. Earlier this month, the British Society of Motor Manufacturers said that sales of Japanese cars in Britain rose 66 per cent in the first four months of the year compared with the same period of 1977.

The spokesman said the Ministry will ask for export cutbacks at a meeting this week of the export committee of the Japan Automobile Manufacturers' Association.

Despite the Government's aim to reduce vehicle exports under previously announced guidelines, Japanese car and lorry exports are steadily increasing.

The latest available figures show Japanese vehicle exports in April were up 19.8 per cent over April, 1977, including some 14,000 vehicle exports to Britain, up 43.4 per cent.

● The most difficult part of the Tokyo Round of multinational negotiations on international trade is now problems concerned with trade of agricultural products, Japanese External Economic Affairs Minister, Mr. Nobuhiko Ushiba, said.

Mr. Ushiba said on his return home from the U.S. where he had discussions with U.S. Special Trade Negotiator Robert Strauss, that the U.S. had pressed Japan for freer imports of 80 agricultural products including beef and citrus fruits.

World Economic Indicators

UNEMPLOYMENT

		May '78	April '78	March '78	May '77
U.K.*	000s	1,366.4	1,387.1	1,400.0	1,315.9
	%	5.7	5.8	5.9	5.6
		April '78	March '78	Feb. '78	April '77
Holland*	000s	201.9†	198.7	202.7	199.8
	%	5.1	5.0	5.1	5.2
W. Germany	000s	1,000.4	1,098.9	1,224.9	1,039.3
	%	4.4	4.9	5.4	4.6
France*	000s	1,105.7	1,086.1	1,050.3	1,039.4
	%	5.1	5.0	4.9	4.9
U.S.*	000s	5,983.0	6,148.0	6,090.0	6,737.0
	%	6.0	6.2	6.1	6.9
		March '78	Feb. '78	Jan. '78	March '77
Belgium	000s	284.1	290.9	299.5	252.6
	%	11.5	11.8	12.1	9.7
Japan	000s	1,410.0	1,360.0	1,260.0	1,270.0
	%	2.6	2.5	2.4	2.4
		Jan. '78	Oct. '77	July '77	Jan. '77
Italy	000s	1,520.0	1,598.0	1,692.0	1,459.0
	%	8.0	8.0	8.5	6.8

* Seasonally adjusted. † Provisional.

AIRLINES

MEA makes a comeback

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, RECENTLY IN BEIRUT

MIDDLE EAST Airlines, the flag airline of the Lebanon, has now achieved a virtually complete recovery after the near-total disruption of its scheduled operations in 1975 and 1976, during the civil war that not only destroyed much of the heart of Beirut but also severely damaged the Lebanon's position as a Middle East business and tourist centre.

Mr. Asad Y. Nasr, chairman of MEA, reveals in the latest annual report that in 1977 the airline earned a profit of over L£20m (about £4m), and eliminated what remained of the losses incurred in the two years of "disturbances."

During those two years, for some months of which Beirut Airport was shut and the country cut off by air, the airline kept alive by removing its fleet overseas, notably to Paris (with the help of Air France, a 28 per cent shareholder in MEA).

Most of the aircraft—three 747s and 19 707-320Cs—were temporarily "wet leased," that is, including crews and maintenance, on charter to a wide variety of other airlines, and the fleet was thus able to remain virtually intact.

The airline during that period was also able to live on its accumulated profits, while a big contribution by the 5,000 staff from their salaries also helped to maintain liquidity. Many of the staff stayed in Beirut, guarding the airport installations and the airline's stores.

Today, despite some continued unrest, and the Israeli incursion into the south, Lebanon is trying to recover its business and tourist status. Traffic passing through Beirut Airport last year amounted to just over 1.4m passengers and 23,777 aircraft movements, about half the 2.8m passengers and 44,407 aircraft movements in 1974, before the troubles began.

Most of this traffic was undoubtedly business, for tourism remains low. Tourist revenues of L£967m in 1974 dropped to L£670m in 1975, nil in 1976, and recovered to L£200m last year. A further rise is hoped for this year.

At preesent, the hotel occupancy in Beirut itself is about 20 per cent. of the pre-trouble period, with about 121,700 visitors last year against the 1974 total of 645,669. Of the luxury hotels, the St. George's, the Phoenicia Intercontinental and Holiday Inn are still shut, awaiting extensive repairs, and the few that are open, such as the Carlton, are thinly populated.

But MEA itself is confident. Its fleet is intact and its network is expanding. Of the 42 destinations served before the disruption, all have been restored with the exception of Vienna, Berlin, Brussels, Warsaw, Accra, Freetown and Monrovia, and Mr. Nasr says that the airline will definitely be back in Brussels and Vienna next year.

Beyond this, MEA plans to start flights to new points in Europe and Africa as soon as possible—Amsterdam, Stockholm, Dakar, Tunis, Algiers, Morocco in the West, and Nairobi in the East. Of three Jumbos wet-leased, one has been returned, and is now flying on the routes to London and Paris from Beirut and points in the Gulf.

The airline also has ambitious plans to become part of a major new Arab airlines consortium that would also include such carriers as Alia of Jordan, Syrian Arab, Kuwait Airways, Gulf Air, Saudia of Saudi Arabia, Egyptair and Iraqi Airways.

Each airline would maintain its existing identity and networks, but under the title of Pan Arab Airways would jointly concentrate initially on providing non-stop flights between the Middle East and New York on two routes—Amman-Beirut-New York, and Cairo-New York, using initially Boeing 747s or other wide-bodied jets.

The U.S. Civil Aeronautics Board is believed to be in favour of an approach from an Arab consortium for U.S. flights, rather than face a large number of separate applications from various Arab operators.

This plan is to be discussed in June at a meeting of the member-airlines, and it could well be implemented later this year.

Eventually, MEA sees the possibility of a Concorde service linking the Middle East with the U.S., flying supersonically the whole length of the Mediterranean, then subsonically into Toulouse, France, for technical refuelling, and then supersonically across the North Atlantic to New York.

This "Cannoball" service, as MEA calls it, was the original brainchild of Sheikh Najib Alamuddin, for long the president and chairman of MEA, but who has now retired to become honorary chairman and advisor to the Board. The plan is being kept alive, however, by the new chairman, Asad Nasr, and is likely to be considered seriously by Pan Arab Airways, now that Concorde flights are being accepted into New York.

Contracts

● **British Ropeway Engineering,** in a new collaboration agreement with their Indian associate, Usha Breco Ropeways, of Calcutta, has undertaken an export obligation of £3.2m which covers a wide range of mechanical handling systems in addition to aerial ropeways.

● **David Brown Tractors** of Huddersfield, has won an export order, worth approximately £400,000, covering the supply of 50 tractors, technical assistance in establishing service/repair facilities and a substantial consignment of tractor parts to Sri Lanka.

● A £2m contract has been awarded to a **Staveley** company for electrical installation at the Port Rashid Extension, Dubai, being built by the Costain-Taylor Woodrow joint venture. The electrical contract will be handled by Zener-Colston, a company recently established with local partners Zener Electrical Services, Dubai, by Colston Electrical, a member of the Staveley Industries group.

● Orders received from the Arabian Gulf by **Plessey Private Communication Systems** of Nottingham has topped the £1½m mark in the past 18 months. The latest sale is for private automatic branch telephone exchanges from Qatar and previous orders for manual switchboards and telephones are still being shipped to the United Arab Emirates, Bahrain, Amman, and Kuwait.

SHIPPING REPORT

Tanker rate boost

BY LYNTON McLAIN, INDUSTRIAL STAFF

BUOYANCY in the dry cargo market helped boost oil tanker rates last week as owners of combination carriers opted for grain, iron ore and other cargoes. This had the effect of reducing competition in the oil market, leading to firmer conditions in tanker trade.

Trading in tankers was not very active but for the first time a large number of charterers sought very large crude carrier tonnage. One company fixed rates on four vessels totalling 1m tons, for a charter from the Gulf.

Elsewhere rates have been slow to react. Most of the units have been at Worldscale 19 for the larger VLCCs and Worldscale 20 for the smaller vessels. One 220,000 ton ship was fixed at Worldscale 23 for full speed steaming, or Worldscale 21¾ for slow speed.

Two ultra large crude carriers were fixed, a 395,000 ton vessel at Worldscale 17 for Mediterranean discharge and a 310,000 tonner on reduced cargo of 295,000 tons at Worldscale 18¼ for a voyage to Europe. Several smalled vessels had success in this area with a 93,000 ton ship bound for the east fixing at Worldscale 40.

In the Mediterranean and West Africa there is now a dearth of early tonnage, and owners noted several gains, as combination carriers moved to dry cargoes. A U.S. oil company fixed a 104,000-ton part cargo from West Africa at Worldscale 36½ for discharge in the West. In the Mediterranean a typical fixture was a 97,000-tonner at Worldscale 45, for U.S. Gulf discharge.

The stronger dry cargo market has also affected Caribbean trade. Rates firmed up moderately. A 76,000-ton cargo from the Caribbean to the U.S. Gulf was fixed at Worldscale 55.

Shipbrokers were optimistic at the end of last week that there will be a substantial rise in rates for VLCCs when Japanese implement a storage scheme, perhaps in the autumn. This could involve between 20 and 24 vessels, John I. Jacobs said.

Other brokers, including Galbraith Wrightson, said there was likely to be stiffer competition among charterers for smaller-sized VLCCs during early June, as Middle East capacity moves from surplus into moderate short supply.

On the dry cago market, demand for Panamex bulkers has continued to strengthen. For a 60,000 tonner the rate reported last week by Denholm Coates was about $6,500 per day for a transatlantic or River Plate round.

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OVERSEAS NEWS

Japan to boost aid by up to $1bn

By Charles Smith

TOKYO, May 29.

JAPAN is believed to have decided in principle on a major increase in its contributions to development projects sponsored by the World Bank and a new system of financing which would effectively untie this portion of its aid.

The scheme, known as "joint financing" calls for Japan to make available a pool of money, possibly between $500m and $1bn, which could be used on soft loan terms for World Bank projects alongside similarly untied funds contributed by other nations.

Japan would be consulted on the choice of projects which would receive money from the fund but would have no subsequent control over their implementation.

The "joint financing" proposal was put to Japan last December by World Bank officials who argue that it offers a means for Japan to step up its aid disbursement more rapidly than would be possible if the Japanese Government retained direct control over the implementation of aid projects.

Japan seems initially to have been hesitant about the World Bank proposal but to have decided in favour because there appears to be no way in which directly implemented Japanese overseas aid projects can be increased rapidly enough over the next few years. Boosting multilateral aid therefore represents the only obvious direction for Japan's aid planners to take in their efforts to increase aid disbursements as a matter of urgency. The urgency arises from Japan's embarrassingly large current account surplus and from the public commitment made by the Government that the nation will double the size of its Overseas Development Assistance (ODA) over the next three years.

Japan's ODA in 1976 totalled $1.1bn or 0.2 per cent of its Gross National Product, an exceedingly low ratio by the standards of Western aid-giving countries. Last year ODA is believed to have risen to $2.4bn, but it probably still amounted to only 0.21 per cent of GNP — partly because of the growth of ODA in terms of dollars was offset by the fall in the value of the dollar compared with the yen.

Hanoi offers olive branch

SINGAPORE, May 29.

HANOI today proposed talks with China early next month on the exodus of thousands of Chinese refugees from Vietnam. Hanoi Radio, monitored in Singapore, said Vietnam's Vice-Premier for Foreign Affairs, Hoang Bich Son handed over a note proposing the talks to the Chinese ambassador in Hanoi. If the proposal were accepted, a meeting could be held in Peking early next month. Peking has accused Vietnam of persecuting and expelling some 90,000 Chinese, straining relations between the neighbouring Communist countries.

Reuter

EEC Ministers may decide on joint energy package

BY GUY DE JONQUIERES, COMMON MARKET CORRESPONDENT

BRUSSELS, May 29

ENERGY MINISTERS of the nine Common Market countries will be called upon tomorrow to decide on the most comprehensive—and controversial—package of energy measures proposed in the EEC since immediately after the sharp rise in world oil prices more than four years ago.

The five-point programme, which could involve EEC spending of as much as £900m over the next five years, is claimed by its backers to offer a major opportunity to lay the foundations of a genuine Community energy policy before the seven-nation Western economic summit to be held in Bonn next July.

Chances that the measures will be approved in anything like their present form appear slight, however. A number of governments, including the U.K., have already made it plain that they consider that the advantages being offered them do not go far enough or are outweighed by the concessions that they are being asked to make in return.

Mr. Tony Benn, the Energy Secretary, is expected to express strong opposition to proposals to cut back excess refinery capacity in the EEC, estimated at about 75m tonnes, and to ban new refinery construction until 1982. Voluntary monitoring of refinery throughput and if imports of oil products from east Europe are also envisaged.

There are no immediate plans to build any new refineries in Britain, and the EEC has promised to exempt the two projects already on the drawing board from the proposed ban. But Mr. Benn insists that the proposal is an unwarranted interference by the Community into national policy-making.

Italy, on the other hand, believes that the refineries plan is not sufficiently far-reaching. Unless it obtains substantial EEC aid to finance closures, it may block a proposal for a £7 per tonne subsidy on coal used in power stations, which both Britain and Germany would like.

Germany is pressing to have the subsidy plan expanded to steam coal. It is also resisting proposals for EEC funding of energy-saving demonstration projects because these would divert funds earmarked for similar national ventures at home.

Germany and Britain are united in opposing a proposal for EEC financing of hydrocarbon exploration projects, first advanced more than four years ago. But Ireland has indicated that it may block other parts of the package unless this proposal is approved.

The final proposal is for a research programme into alternative energy sources, notably geothermal energy and the liquefaction of solid fuels. This enjoys considerable support and could be approved if it does not become bogged down in disagreements on other issues. The proposals have been laboriously assembled by the Danish Government, currently President of the EEC Council of Ministers, in close collaboration with the Commission. They call for the spending of about £450m, but this could be increased to more than £900m if the package is modified to meet different national demands.

Italy's deficit under ministerial review

BY PAUL BETTS

ROME, May 29.

ITALIAN economic ministers were meeting here tonight to examine further measures aimed at containing the deficit of the country's enlarged public sector, including the health services and the electricity board, to L24,000bn (£19bn) this year. This is the level understood to be acceptable to the International Monetary Fund (IMF) and which the Italian authorities believe can allow an economic recovery without the risk of a sharp increase in inflation.

The cabinet approved over the weekend by decree law a package of new tax and public utility tariff increases, including rail fares and electricity charges, which are expected to raise between them some L1,500bn of fresh revenue, according to Sig Filippo Pandolfi, the Treasury Minister. At the same time, the cabinet allocated some lire 2,900bn of subsidies to promote job-creating investments and to help reconstruct financially troubled State sector enterprises.

However, to keep the enlarged public sector deficit down to about L24,000bn, the authorities still have to lower public expenditure by an estimated 6 per cent. To this end, the economic ministers are now expected to intervene on various key controversial sectors like the pension system and local authority finances which effectively represent among the major strains in the State Budget.

Sig. Pandolfi said decisions must be reached before the summer if the objectives of the all-party programme for an economic recovery are to be achieved. The immediate target of the programme is to reach by the last quarter of this year a growth rate of about 4.5 per cent annualised with inflation running at no higher than 14 per cent.

The economic ministers are expected to discuss this second series of economic measures with the main political parties and the trade unions, which have both complained of not being adequately consulted over the first package just approved by the Government, before presenting them to the cabinet early next month.

This would coincide with the arrival here of an IMF team to review the commitments Italy took in a letter of intents last year at a time of further drawing of U.S.$530m from the fund.

Editorial Comment Page 12

Halt called to pyramids tourist development

BY ROGER MATTHEWS

CAIRO, May 29.

THE EGYPTIAN Government has ordered that a luxury hotels and villas development near the Pyramids of Giza should be abandoned. The decision came after an intense controversy over the estimated $500m project which was being developed with the Government by Southern Pacific Properties. As its 40 per cent participation in the venture, the Government had provided 400 acres of land.

The pyramids oasis, as it was generally known, would have accommodated up to 40,000 tourists and residents grouped around an 18-hole golf course with views of the pyramids.

Cairo opponents of the scheme levelled a series of charges against the developers and the Government, claiming that it would ruin the historic site, deface the setting of the pyramids and cover up archaeological sites. A number of newspaper articles suggested that the Government was selling Egypt's heritage for private gain.

The official reason given for the decision to halt the project is the preservation of national archaelogical wealth.

The Pyramids oasis issue coincided with Mr. Sadat's attempt to introduce slightly greater political freedom and rapidly became a stick with which his opponents sought to discredit the Government. Mr. Sadat referred to the matter in recent speeches, stating first that it had been decided, then that it would be investigated, and finally that it might have been a mistake.

Work estimated at $7m has been carried out on the infrastructure for the development and was undertaken by Arab Contractors, founded by Mr. Osman Ahmed Osman, a close personal friend of President Sadat. At least 400 building plots have been sold and Trust Houses Forte had been chosen to operate the first of the four hotels to be constructed.

THE Middle East situation and growing Communist bloc influence in Africa are expected to be the main items in talks today between King Khaled of Saudi Arabia and President Giscard d'Estaing, David White reports from Paris. Questions of economic and military co-operation will be dealt with in a wider forum including key members of the Saudi Government. The talks are unlikely to result in firm contracts between the two countries, but the French are hoping that they will clear the way towards important civil and military deals. France would like Saudi support for the future generation of Mirages. Anti-aircraft radar networks, anti-tank helicopters and tanks are also believed to be under discussion.

Announcing the decision to abandon the project after the report of a special parliamentary committee to the Prime Minister and to Mr. Sadat, the General Arab and Foreign Investment Authority stressed that it would have no bearing on Egypt's overall investment policy.

Procedures would be taken to guarantee the rights of shareholders and investors the authority said. Southern Pacific Properties, a Hong Kong-quoted company, would be able to develop sites anywhere else in Egypt provided that their plans did not affect areas of public interest.

Share dealings in Southern Pacific Properties were suspended in Hong Kong last week, due, it was stated, to the possibility of a bid for a majority holding in the company by Mr. Adnan Khashoggi, the Saudi Arabian entrepreneur who heads the Triad Holding Corporation.

In a statement issued from its London headquarters Southern Pacific Properties said the Egyptian Government spent more than three years examining the implications of the project before the infrastructure contract was signed last year. SPP had fulfilled all its obligations under the contract. The company was one of the first Western concerns to make a major investment in Egypt after the establishment of President Sadat's open-door policy.

President Sadat

Dissidents detained in Egypt

THE CLAMPDOWN on political dissidents in Egypt is now concentrating on 150 people who are being investigated for allegedly threatening national security. More are expected to be added to the list of cases that has been handed to the Socialist Prosecutor by the Minister of the Interior, General Mohammed Nabawi Ismail, Roger Matthews reports from Cairo.

Direct action has so far only been taken against five journalists, all of whom have been forbidden to leave the country. The best known of these, Mr. Mohammed Heykal, a close confidant of the late President Nasser and for 18 years editor of the newspaper Al Ahran, commented that although he had disagreed with President Anwar Sadat on the best way of achieving a Middle East peace settlement, he thought this was the basic right of every citizen.

Some 60 journalists — 26 working inside the country and 34 abroad — are under investigation. Another 90 people, mainly politicians, are expected to be called in for questioning.

Amputations ordered

A military court in Karachi yesterday ordered that three men who tried to rob a bank should each have a hand amputated, Simon Henderson reports from Islamabad. It will be the first time the punishment has been carried out since it was introduced by the military regime of General Zia ul-Haq last year.

Meanwhile the Pakistan authorities say they have reached agreement with journalists and newspaper workers to reopen the pro-Bhutto daily paper, Mussawat. More than 140 trade unionists have been arrested in the past month for attempting to hunger strike in protest at its closure. The agreement has been made with journalists who do not support direct action. About 100 journalists have been released from jail.

Rhodesian emigration

There has been a sharp fall in the number of whites leaving Rhodesia according to official figures, our Salisbury correspondent reports. Net emigration of whites, which averaged more than 900 a month last year, fell to only 560 a month in the first four months of 1978.

Eritrean claims

The Eritrean Popular Liberation Front claimed yesterday that it had wiped out gains made by Ethiopian forces in Eritrea earlier this month, James Buxton reports from Khartoum. Observers in the Sudanese capital believe that the Ethiopian offensive two weeks ago was one of a series of attacks aimed at widening the area under Ethiopian control.

W. German terrorist suspects held

By Adrian Dicks

BONN, May 29.

IN THE MIDST of the outrage in West Germany over last weekend's freeing of the alleged terrorist, Till Meyer, from a West Berlin remand prison, the Justice Ministry in Bonn suddenly announced today that four more suspected terrorists have been in police custody in Yugoslavia for the past ten days.

The four latest arrests include those of Brigitte Mohnhaupt and Rolf Clemens Wagner, two of the 16 most wanted German terrorists accused of responsibility for last year's series of murders of prominent figures. The circumstances of their detention in Yugoslavia are not yet known.

Despite these apparent successes in the anti-terrorist campaign, there is considerable anger at the freeing of Meyer from his cell with demands for the Berlin Senate to take the political consequences.

Saudis sign £200m deal for telecommunications

BY JAMES BUCHAN

JEDDAH, May 29.

CABLE AND WIRELESS was to-day confirmed as winner of a Saudi Arabian telecommunications contract worth more than £200m in the first instance.

The agreement for a complete telecommunications system for Saudi Arabia's National Guard was signed in Riyadh by Prince Abdullah ibn Abdul-Aziz, commander of the guard and Second Deputy Prime Minister. Mr. John Wilton, the British Ambassador, signed on behalf of the British Government.

The agreement implements an expression of intent signed on March 19. It covers five years in the first instance and is worth 1.13bn Saudi riyals with an additional £40m for start-up and purchase of equipment in the UK.

Mr. Wilton pointed out that the final contract value could be a great deal more. "The agreement can run beyond five years and might ultimately be worth double that,' 'he said.

The final scope of the British involvement will depend very much on the performance of the contractor and on when the National Guard of 35,000 men feels ready to dispense with foreign assistance. The agreement carries the regular stipulations for performance guarantees and progress payments usual in Saudi public sector contracts.

The State-owned Cable and Wireless will be responsible for design, installation, maintenance and operation of the system and for simultaneous training of National Guard personnel. Under the terms of the March 19 agreement the company will act as prime contractor for the British Ministry of Defence which will monitor progress over the five years.

Court orders retrial for Menten

By Charles Batchelor

AMSTERDAM, May 29.

THE SUPREME COURT to-day quashed a 15-year sentence imposed on Mr. Pieter Menten for his alleged part in the mass execution of Jews in Poland in 1941. The Supreme Court said the Amsterdam court which sentenced Mr. Menten in December had made a procedural error and ordered a retrial before a court in the Hague.

The court in Amsterdam dismissed Mr. Menten's claim that he had been declared innocent of other war crimes in 1949 and that three years later the Minister of Justice had said no further action would be taken against him. The Amsterdam court decided that this did not amount to a formal declaration of freedom from prosecution

The Supreme Court said today that the lower court should have carried out an investigation into the Minister's reason for his decision

Moscow refuses to estimate gas deal cost

BY DOUGLAS RAMSEY

TOKYO, May 29.

THE SOVIET UNION has again refused to put a price-tag on the multibillion - dollar Yakutsk natural gas project which it hopes to undertake with finance and know-how from Japan and the U.S. This refusal virtually ensures that a firm agreement to proceed on the project will not happen until 1980. "It will take some years," a Japanese official commented today.

At talks in Tokyo last week, Soviet Deputy Trade Minister Nikolai Osipov told Japanese and U.S. businessmen that any cost estimate is impossible just now. Instead, the Russian official put forward three alternative proposals for the Yakutsk project, each assuming a different pipeline route. Each proposal carries with it a list of required equipment, and the two Western consortia must now analyse for themselves the alternative costs for each project at expected market prices for the needed equipment between 1980 and 1985 (when the project, it is hoped, would be undertaken). The new estimates will be discussed at the next joint meeting in San Francisco in the autumn. Concluding the talks on Friday, Mr. Osipov signed a non-binding "memorandum" calling for production at the Yakutsk fields in Siberia to start by 1985. Mr. Hiroshi Anzai, president of the Tokyo gas company, signed on behalf of Japanese utilities, Mr. Howard Boyd, chairman of El Paso Natural Gas Company, signed for the U.S. developers and bankers involved in the Yakutsk deal.

The broad outline of the Yakutsk project has been known since Moscow began negotiating it with Japanese and U.S. businessmen in 1972. Mr. Osipov asserted in Tokyo last week that the fields sit astride 1,000bn cubic metres of potentially recoverable deposits (although Soviet geologists are still working to "prove" the full amount). So far, proven amounts are 340bn cubic metres at the Botsbinsk field and 460bn cubic metres at the Soldone Vilusk field, Mr. Osipov said.

In return for financing and development know-how, the Western consortia would receive 10bn cubic metres of liquefied natural gas (LNG) a year over a 25-year period once the fields go into production.

The Japanese and U.S. participants have done their own separate cost analysis of the project which will include pipelines and a coastal liquefaction plant. The Tokyo Gas-led consortium puts the project cost at $3.9bn, and the El Paso estimate is only slightly higher at $3.9bn. The Western companies have been trying for at least a year to pin down the Soviet Union to a firm cost estimate for the Yakutsk project in order to expedite financing negotiations with the Japanese and U.S. Export-Import banks as well as Western bank consortia. But Moscow is wary of underestimating the cost of the project and then having to come up with its own funds to meet any cost overrun.

The alternative proposals put to the Tokyo meeting by Mr. Osipov centre on pipeline routes other than the one most commonly assumed for transporting the gas from Yakutsk to the Eastern seaboard. Western consortia have so far based their estimates on a 3,523 km pipeline route to Olga, a port north-east of Vladivostok. Moscow is seriously studying a much shorter alternative route of 2,175 km to Magadan on the sea of Okhotsk, as well as a 3,248 km line to port De Kastri on the eastern Siberian coast.

'Subsidy' plan for UK mail attacked

BY JOHN LLOYD

THE Mail Users' Association, the indpendent Post Office pressure group, has accused the Post Office of using an "accountancy device" which discriminates against the larger users of overseas mails.

The association claims that in its forthcoming report for the financial year 1977-78, the Post Office means to transfer £10m-£12m of the profits generated by overseas posts to the inland postal business.

This would avoid an "embarrassingly high" level of profits in overseas mails—and bring inland mail profits up to the target of 2 per cent on turnover set by the Government.

The Post Office's standard practice is to charge a fee to the overseas postal business, payable to the inland postal business, for work done on overseas mail before it leaves the UK. The Mail Users' Association is claiming that this charge is to be raised by as much as £12m.

In the financial year 1976-77, overseas mails made a profit of £13.4m—8.3 per cent on a turnover of £162m. The figures for the last financial year are thought to show an even higher return.

Mr. Julian Blackwell, the association's vice-chairman, said yesterday that "the Post Office will be levying a tax on exporters if it goes ahead with its plan to place a bigger cost burden on overseas posts."

OBITUARY

Sir Harry Jephcott

SIR HARRY JEPHCOTT, who was chairman of Glaxo Laboratories and then the Glaxo group between 1936 and 1963, died yesterday in a London hospital. He was 87.

Sir Harry joined Glaxo as its first chemist in 1919, and planned the company's transition from being primarily a baby-food manufacturer to becoming a major international pharmaceutical concern. He was knighted in 1946.

Among the many posts he held were the chairmanship of the Association of British Chemical Manufacturers, a governorship of the London School of Economics and the presidency of the Royal Institute of Chemistry

New bid to sort out U.S. shipping tangle

BY IAN HARGREAVES, SHIPPING CORRESPONDENT

A FRESH initiative by an alliance of 12 European maritime States and Japan, to sort out a tangled relationship with the U.S. over regulation of liner shipping, opens in Washington today.

The meeting involving the alliance—the Consultative Shipping Group—is attempting to clear the air in a prolonged confrontation which shipowners say is costing them millions of pounds a year, and which has resulted in North Atlantic shipping lines being brought before the Grand Jury on criminal charges.

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Today's meeting will be the first time that representatives of all the States involved in this row have met formally for a broad discussion of the problems. It is well timed because the White House has recently announced a comprehensive inter-departmental review of maritime policy.

Although the Europeans and Japanese have agreed not to raise the question of the Grand Jury investigation as a specific item, it is certain to be referred to as an example of the point to which the situation has deteriorated.

A number of witnesses from the shipping companies involved have already been subpoened to give evidence.

At the root of the difficulties is the attitude of the US Department of Justice towards liner shipping conferences, the bodies which fix rates in the case of services to the US, but which on other trades have wider functions involving the pooling of ships and the collective planning of investment. The Justice Department regards these organisations as anti-competitive cartels.

There are seven so-called "open" conferences on the North Aatlantic, involving seven shipping lines, four American and three European.

The US regulatory body for conferences is the Federal Maritime Commission, but this agency's work is subject to scrutiny by the Justice Department, whose actions in a number of matters which European shipowners regard as routine have delayed developments within conferences by months and even years.

More seriously, the Americans are accused of attempting to export their domestic anti-trust legislation by putting pressure on non-U.S. shipping lines to avoid direct contact with their customers, the shippers.

In Europe, shipper-shipowner contact is formalised through shippers' councils, which are illegal in the U.S.

The net result of the tangle, which has worsened since the Grand Jury investigation began in January, is, shipowners say, a climate of instability and uncertainty coupled with a loss of efficiency because lines are prohibited from planning investment and services together and with their customers.

The group is asking the U.S. to re-write its shipping law, and is not optimistic about progress. But it does hope at least to improve the climate in which shipping lines in the North Atlantic are working.

EEC anti-Soviet plan hits snag

BY OUR SHIPPING CORRESPONDENT

THE EEC's efforts to forge a common policy on rate-cutting by the growing Soviet merchant fleet has run into difficulty within a fortnight of a meeting of Community Transport Ministers which is to discuss an anti-Soviet plan.

A proposal on Soviet shipping published by the Commission a few weeks ago centred on the monitoring of Russian ship movements in European ports.

Shipowners hoped that this would be the first step in a tougher policy which might lead to quota restrictions on Soviet ships.

Since the Commission published its ideas, which were felt to be far too weak in some European shipping circles, the proposition has been modified because of French insistence that no specific reference be made either to the Soviet threat or "State trading" fleets.

Instead, the French Government wants to substitute a phrase which will cover flags of convenience.

The French amendments would not, in fact, destroy the technical function of the proposition, which is to permit and encourage member-states to take action individually.

Talks on Africa air links cash

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

A CONFERENCE aimed at raising $110m (over £50m) in new aid funds for civil aviation development in Africa in the next five years is to be held in Geneva this week (May 31-June 2) under the auspices of the International Civil Aviation Organisation, the technical aviation agency of the UN, and the Organisation of African Unity.

It will be attended by 42 African states and other interested countries and organisations. They will discuss how to raise the cash needed to improve quality and quantity of civil aviation in Africa.

Training alone is estimated to need $61m, while specialist aviation equipment, new airports and other facilities will account for the rest. The sum estimated does not include money to be spent on new aircraft.

Hitherto, conventional aid to African developing states has been concentrated on agriculture, health, education and other basic needs. But an ICAO-sponsored study has shown that aviation can provide vital communications links, and that to provide air services is often cheaper than building road or rail links.

Aviation has been growing in Africa at a faster rate than anywhere else in the world. Demand is still large and has outpaced ability of African countries to finance development.

Building 'in need of new work'

BY DAVID CHURCHILL

THE construction industry is in urgent need of new work to prevent long-term damage to its potential to meet future demand, according to a report published today by the National Economic Development Office.

The report says that the "dramatic decline in demand since 1973 has wasted considerable resources in idle capacity, reduced efficiency, and caused much individual hardship."

While some capacity has been permanently lost, it says that a "significant amount can still be retained if it can be utilised again in the near future."

It is the latest report published by the Building and Civil Engineering Economic Development Committee for the NEDO. The document urges a more rational approach to demands put on the construction industries.

In particular, it suggests that the Government should avoid rapid changes in demand for construction, "as such changes are very costly economically and socially." Yet the report acknowledges that there are exceptions to utilise spare capacity or cure overheating in industry.

To create a more stable industry, the report advocates a regular assessment of future construction demand and capacity. This should be carried out by the Building and Civil Engineering EDC with the help of the Government and industry.

How flexible is construction? SO, £3.

Brick output goes down

ABOUT 401M BRICKS were produced last month, a decline of 17m on March, but 2m higher than in April last year, says the Department of the Environment.

Deliveries, 440m, were 17m up on the March figure and 58m ahead of April 1977. Stocks fell to 982m from 1.02bn in March, and represent about 2.5 months production.

Output, seasonally adjusted and allowing for working-day variations, was 4 per cent lower in the three months from February to April, than the previous three-month period.

Co-op congress hears call to close ranks

BY ELINOR GOODMAN, CONSUMER AFFAIRS CORRESPONDENT

SCARBOROUGH, May 29.

SIR ARTHUR SUGDEN, chief executive of the Co-operative Wholesale Society, yesterday called on the Co-operative movement to close its ranks and draw up a plan for the next 10 years. Unless this was done, he warned, the Co-operative would lose its market share to private traders, and with that its ability to carry out its wider social purpose.

As this year's president of the Co-op's annual congress, Sir Arthur introduced a much more commercial tone to the proceedings than is usual at this, the Co-op's "parliament."

His speech, which touched on all the problems now facing the movement—both commercial and philosophical—could prove to be a seminal point in the movement's 109-year history.

Alternatively, it could be like many other rallying cries which have been made before at Congress each year by kind constitutional nit-pickers who demonstrate the unique organisation of the Co-op—Britain's largest retailer.

Within the movement, the job of president of congress is regarded as one of the highest honours and has rarely before been given to an executive of the CWS, the central commercial body. Sir Arthur used the platform to ram home choices facing the movement and to call for a "radical new approach."

Planning for the future, he said, was the "supreme central issue facing the movement." He intimated that the question, which dominated last year's congress, is likely to arise again today. This is whether the two central governing bodies should be merged. He believed, however, it was only of secondary importance, compared with the need to plan effectively for the future.

A thorough review of the Co-op's existing operations was needed with close attention to such areas as future market trends, financial requirements and plans for new types of ventures. The Co-op must, he said, for example, decide what to do with its several thousand small shops, in the light of trends towards larger retail stores. He did not believe that the "easy solution of closure was either appropriate or should be accepted."

Price war

Financed by a special "10-year plan levy" on the movement's 209 autonomous retail societies, a team of full-time experts should be recruited to carry out this review, from both within and outside the Co-operative sector, he said.

While multiple retailers, such as Sainsbury's, increased their sales by 17 per cent, the Co-op managed to boost its by only 13 per cent.

In spite of the price war started by Tesco last June, the Co-op managed to hold its share of food sales at 11 per cent. But its share of non-food sales fell again to 2.6 per cent.

Barley mountain offered for sale

By Christopher Parkes

BRITAIN'S "mountain" of surplus barley is up for sale. The 20,000 tonnes of grain, bought off the market earlier in the year when prices were low, is needed by farmers and animal feed makers for converting into feedstuffs.

The Home-Grown Cereals Authority has called for tenders for the grain, which is stocked around the country. Most—about 8,000 tonnes—is held in Lincolnshire, and much of the rest in Common Market bonded stores in East Anglia.

The EEC's intervention buying support system came into operation in the UK grain market for the first time in January.

A bumper harvest last year had raised fears that most of the 250,000 tonnes of official storage space might be needed. But in the event, heavy exports of barley to the Continent eased the situation.

Now barley is hard to find in Britain and prices are climbing. The price for home-grown barley has now climbed to £83 a tonne from about £70 in January.

Indeed, so much barley has been exported that it now appears likely that Britain will have to import extra supplies back from Europe to fulfil its needs.

Barley exports are estimated at 1.95m tonnes—600,000 tonnes more than forecast in February.

Labour call for EEC reforms

BY PAUL TAYLOR, INDUSTRIAL STAFF

THE LABOUR PARTY should enter the next General Election pledged to "fundamental changes" in the EEC, says a pamphlet by the Labour Common Market Safeguards Committee.

The pamphlet, third in an annual series to mark the anniversary of the June, 1975, referendum, is edited by Mr. Hilary Benn, son of Mr. Anthony Wedgwood Benn, the Energy Secretary.

It is highly critical of the benefits to Britain of being an EEC member, and calls on the Labour Party to commit itself to a series of reforms to the Common Market structure and working practices.

The Committee attacks the impact of the EEC on Britain's trade balances, energy, industrial and regional policies. It is particularly critical of the Common Agricultural Policy, which is described as "a disaster for Britain," leading to higher food prices and "maintains."

The Government is accused of defying its own party's opposition to direct elections and bowing to pressure from "big business, the establishment, and the EEC bureaucracy."

The committee lists a series of measures which it thinks the Labour Party should adopt for the General Election, and which it claims "would win a wide measure of popular support."

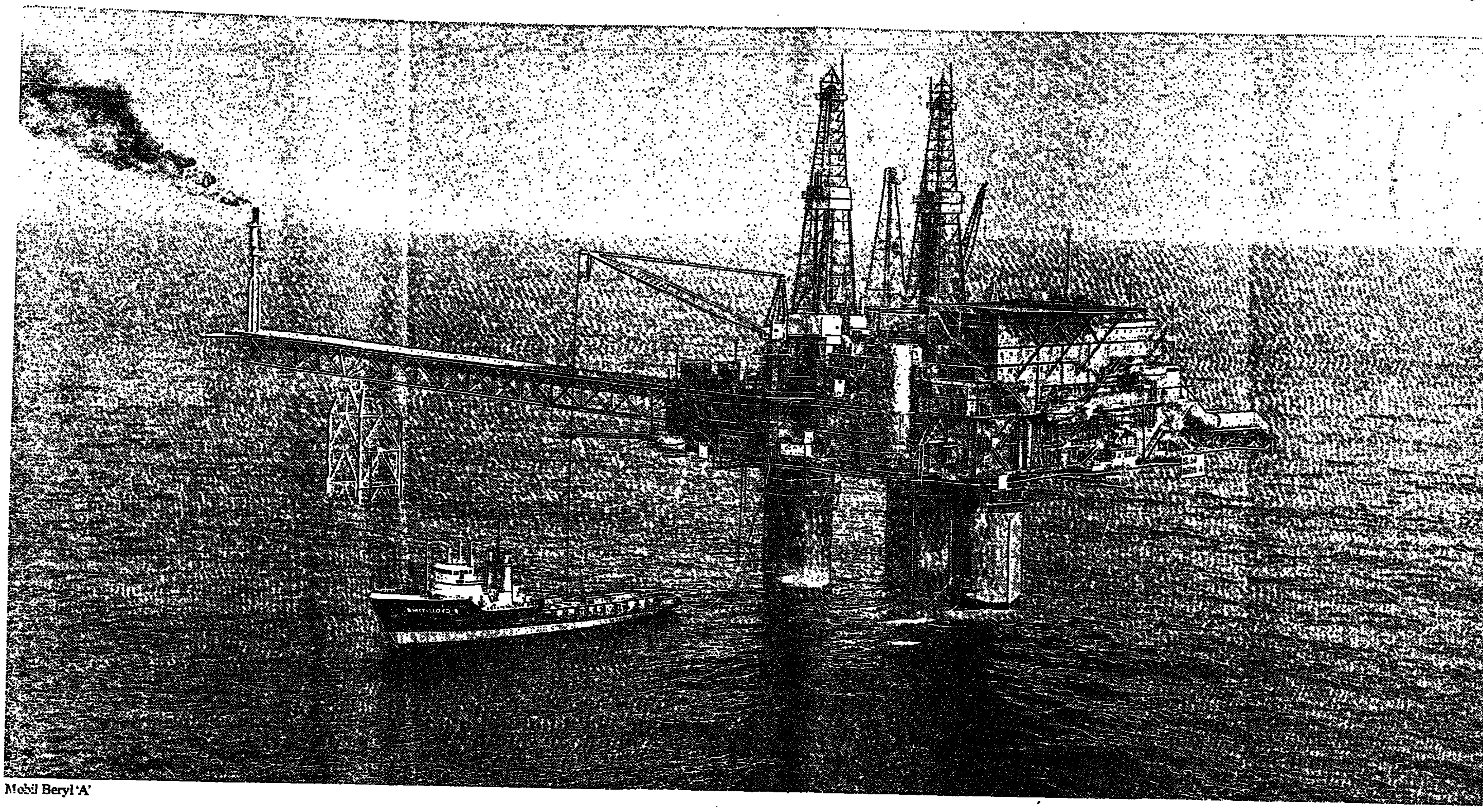
On democracy, it says, the 1972 European Communities Act should be amended to restore power to the House of Commons, and the Treaty of Rome should be rewritten to curtail the powers of the Commission over national policies.

Agricultural policy should be reformed to permit import of cheap food from the world market and any moves toward a monetary union should be rejected.

The Common Market—Labour and the General Election. Labour Common Market Safeguards Committee. 72, Albert Street, N.W.1. 50p.

هكذا من الأهل

Barley mountain offered for sale



Mobil Beryl 'A'

BICC-people who make things work at sea

Oil men aboard Mobil's Beryl 'A' platform, brave the hazards of the North Sea, gathering its rich oil harvest, while one of the men who helped to make it all possible BICC's Bill Ivison, relaxing in the tranquil surroundings of his Whitehaven allotment, looks towards a harvest of a different kind.

Bill flew a team of specialists to Norway to participate in the management team controlling the electrical and instrumentation work on the platform and to advise the platform builders on these aspects. Onshore, Bill supervised BICC's part of the contract, which covered the installation and jointing of high voltage cables. Offshore, however, when the platform had been floated to its final moorings in the North Sea, BICC took over all electrical installation and instrumentation work and Bill co-ordinated the efforts of a 100-strong contracting team in the completion and pre commissioning of all electrical systems.

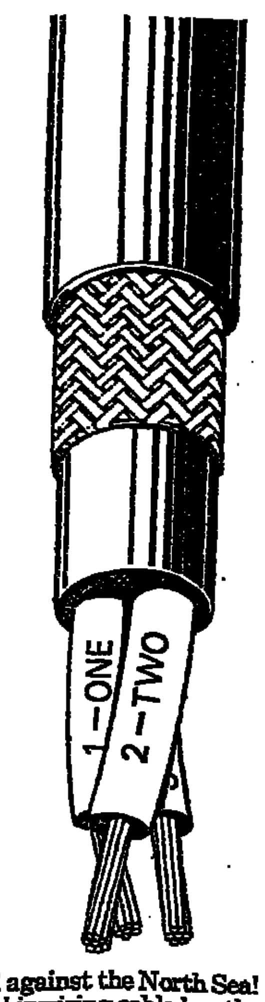
Whatever the problem, BICC has the answer in its people — 54,000 people employed worldwide who, like Bill Ivison, quietly make things work.

And people like Eric Lee, Production Manager for BICC's heavy cables unit at Leigh, who was involved in the manufacture of virtually all of the cabling used by Bill for the Mobil platform. Eric's cablemaking skills are hard-won, coming from 34 years experience in the company — the last 20 in the demanding world of production. However, the enthusiasm and energy which he brings to his work is a complete contrast to his relaxed approach to his hobby — fishing.

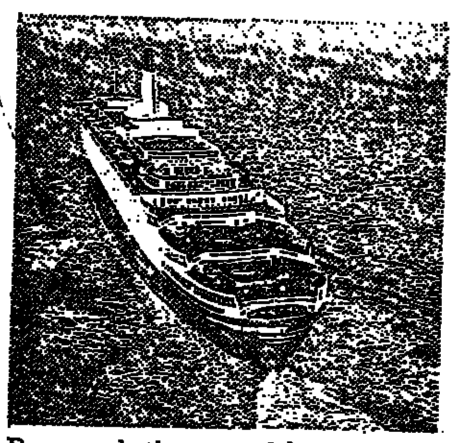
Over the years, Eric's skill and experience have been put to good use in many major BICC projects.

Projects like an improved method of cable insulation (Vertical Continuous Vulcanising) which allowed BICC to manufacture cables for the QE2. The QE2 presented a challenge — high voltage cables of a new and special design. VCV was the answer, and Eric's knowledge of the process, and the special techniques associated with it, enabled BICC to meet the challenge.

More recently Eric and his 500 strong team have manufactured cables for another famous ship, the Royal Navy's new Command Cruiser HMS Invincible.



Proved against the North Sea! This BICC shipwiring cable has the robust construction demanded by the offshore environment.

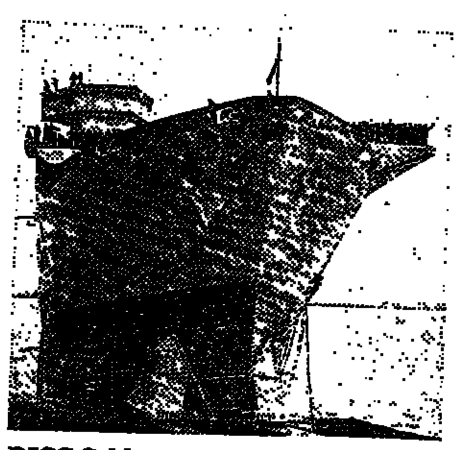


Power and other essential services for the 2,000 passengers aboard the Cunard QE2 are provided through several thousand yards of BICC cable.

Eric Lee — by quieter waters

On every type of vessel plying the oceans, BICC is present, making things work, keeping things moving.

The shipowner whose cargoes are carried from continent to continent; the pleasure-seeker enjoying the comforts of a luxury liner; cross channel passengers travelling on a bed of air; oil men on the North Sea rigs; the brave lifeboat men of the RNLI; and even the lone sailor on his round-the-world voyage — they all rely on the efficiency of the BICC cables and equipment installed in their vessels and in communication and service centres ashore.



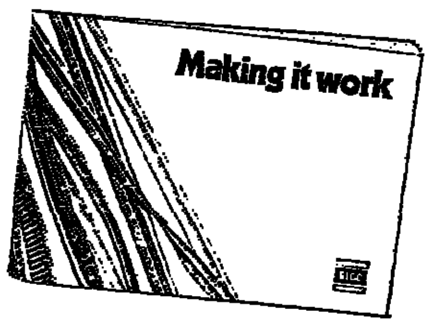
BICC Cables power and control the Royal Navy's sophisticated new Command Cruiser HMS Invincible.

THE BICC Group is diverse; one of the world's foremost cable manufacturers and designers; but also deeply involved in the refining and fabrication of metals; heavily committed to research and development in new communications technology; with a major stake in civil engineering and contracting through Balfour Beatty, a BICC company; possessed of hard-won skills in tunnel design and construction, and railway electrification; with specialist expertise in industrial plastics, electrical accessories, capacitors, printing plates... One thing makes it all work. One thing makes BICC a stable, successful, growing company that competes successfully in so many different markets.

The quality of its people. Highly trained people committed to getting things done — better than before — for the benefit of all of us.

This booklet tells something of the range of skills of BICC and its people, something of their achievement and indicates a great deal about their promise for the future.

For a free copy, write to:
BICC Limited
Group Head Office
21 Bloomsbury Street
London WC1B 3QN
Telephone: 01-637 1300
Telex: 23463 & 28624
Telegraphic address:
Bicalbest London WC1



BICC

Makes it work

FT GROCERY INDEX

Meat and vegetable prices again push up May figure

BY DAVID CHURCHILL

SHARP RISES in the cost of meat and vegetables led to an increase in the Financial Times Grocery Index of 1.54 points in May. The Index, which was revised in March, now stands at 103.11.

The rate of increase in the Index, however, is slightly lower this month. The May rise was 1.51 per cent compared with the 1.77 per cent increase in the first full month of the new index.

Earlier this year the previous index fluctuated, with small rises and falls, although in March it rose by just over 2 per cent.

Since March the FT has been using both a larger sample of shops and a slightly bigger list of groceries. Some 25 shops of all sizes are included in the survey of grocery prices each month.

According to the FT shoppers' research the price of meat and vegetables continued to rise steeply during May as they had done the previous month. The absolute size of the meat bill rose by just over £12 and the vegetable bill by £11.

Most cuts of meat cost substantially more in May. A leg of lamb was up to 10p a pound more expensive in many shops, although some prices were up by as much as between 30p-40p a pound. Topside was up by 4p or 5p a pound in many shops and rump to a slightly smaller extent. Leg of pork, however, was cheaper this month in a number of shops.

The rise in meat prices this month is seriously worrying butchers who claim to have been holding prices down to limit the effect on demand. But with meat still in short supply, prices are expected to rise further in the next month.

The other major price increase in the basket this month was fruit and vegetables. Old potatoes were up by about 1½p to 2p a pound, while new potatoes were costing between 2p and 3p more a pound. But cauliflower and tomatoes were down in price. Tomatoes fell by an average 15p a pound. Prices of apples and bananas were up, with oranges fluctuating.

Frozen foods were also more costly in May than in the previous month, with the main culprits frozen fish and chips. Ice cream prices were also up on average. The bread, flour and cereals sector of the index was also up slightly, with higher cereal prices rather than bread the main cause.

In the rest of the groceries covered by the basket the continuing keen competition among supermarkets has kept prices relatively stable. But lower egg prices helped cut the dairy produce bill this month.

Some copies of the list now used by the FT grocery shoppers are still available from Miss Ingaret Eden, Financial Times, Bracken House, Cannon Street, London, EC4.

FINANCIAL TIMES SHOPPING BASKET

MAY, 1978

	May £	April £
Dairy produce	471.24	475.93
Sugar, tea, coffee soft drinks	179.92	179.66
Bread, flour, cereals	231.72	229.65
Preserves and dry groceries	84.41	84.18
Sauces and pickles	40.80	40.58
Canned goods	155.32	155.70
Frozen goods	183.49	177.43
Meat, bacon, etc. (fresh)	424.26	412.08
Fruit and vegetables	238.79	227.50
Non-foods	182.38	181.08
Total	2,192.33	2,163.79

INDEX 1978: March 100; April 101.77; May 103.11.

Spirit clearance up

CLEARANCES from bond of alcoholic spirits rose nearly 40 per cent in the first quarter of this year, compared with the depressed first three-months of last year, according to Customs and Excise statistics.

However, the Wine and Spirit Association said that very high stocks after the mini-Budget of December, 1976, held down investment in the market well into the following year.

"Although the first quarter of 1978 indicates some upturn in the market, it is too soon to identify a trend," said Mr. Peter Hallgarten, deputy chairman of the association.

"The moving annual total remains a better yardstick of the market's strength or weakness—and that is nearly 7 per cent down."

LABOUR NEWS

Bakers' union holds ballot on pay claim

BY OUR GLASGOW CORRESPONDENT

SCOTLAND'S 7,000 bakers are being asked to vote by their union this week on whether to take their pay claim to arbitration or introduce an official overtime ban through the country.

The ballot, expected to be completed by Friday, follows five weeks of unofficial action in west Scotland.

The bakers, represented by the Scottish bakers section of the Union of Shop, Distributive and Allied Workers, are demanding full consolidation of a £6 supplement into their basic wage. This would make overtime work more lucrative when meeting increased demand in the aftermath of the recent bakery closures by Spillers-French.

Bakers rely on overtime to make up their earnings to industrial levels.

The two main baking groups, Rank Hovis McDougall and Associated British Foods, have offered a maximum consolidation of £3.50.

Their main bakeries in Glasgow and Ayrshire have been hit by unofficial industrial action which has cut supplies over some weekends by two-thirds.

The union was urging members not to take action while negotiations were in progress. But after a series of fruitless talks arranged last week through the Advisory, Conciliation and Arbitration Service, union officials have now decided to find out the view of all Scottish bakers.

If the ballot opts for arbitration over the consolidation claims, the union plans another vote to find out whether bakers want the 40-hour week now being worked in some bakeries to be extended nationally.

Building society jobs queried

By Nick Garnett, Labour Staff

THE National Union of Bank Employees has asked Mr. David Basnett, general secretary of the General and Municipal Workers' Union, to explain why his union's white-collar section has apparently started recruiting within the Woolwich Building Society.

Mr. Maurice Reed, national officer for the Managerial, Administrative, Technological, and Supervisory Association—the General and Municipal's white-collar section—said at the week-end that there might have been some recruiting in the Woolwich, but the Association was not mounting any national campaign within the finance industry.

His union did not want to recruit in finance companies where other unions had an already established membership.

Whether or not the Association, which has some finance members, set up its own finance section would depend on developments in recruitment within the industry.

The General and Municipal had a close working relationship with the bank employees' union, and had always tried to give it assistance within the financial field. The union had about 2,500 members in building societies.

The Association claims to have boosted its membership by 25 per cent over the past year to about 75,000, and it has recently launched a joint recruitment drive in the cement industry with Mr. John Lyons' Engineers' and Managers' Association.

Miners to end strike action

BY OUR LABOUR STAFF

A TEN-DAY strike by 1,100 miners at Derbyshire's largest colliery at Markham, near Chesterfield, will end on Monday—the day the men finish their holiday.

The strikers, numbering fewer than half the colliery's 2,300 miners, were protesting because they were not paid for two days last month, when an engine winders' strike prevented them going underground.

The National Coal Board said that although three pits bring coal up at Markham, the colliery was one undertaking, and all members of the National Union of Mineworkers were equally responsible for strike action.

At a mass meeting in the middle of a week's holiday, union members voted to return to work next week.

Mr. Tony Maxfield, union branch secretary, said they would now pursue the claim in a different way.

Guarantees are to be sought that wages will be paid to a group not responsible for any similar stoppage in the future.

Wage deal threat

BY OUR LABOUR STAFF

UNIONS AT the British Sugar Corporation are threatening to withdraw from the national wage agreement and negotiate at factory level.

They claim that this move could delay the autumn's sugar beet harvest and lead to the workers withholding 65,000 tons of unrefined extract, now in store.

Their protest follows a joint negotiating committee meeting to fix terms for special payments for next year's thick juice run.

Mr. Bobby Smith, national industrial officer of the General and Municipal Workers' Union, said that the unions were told that a special payment to refinery workers was to be stopped from early August.

The company says that it told the unions earlier this month that the present juice refining agreement should be terminated and three months' notice given.

NOTICE OF REDEMPTION

To the Holders of

Occidental Overseas Limited

10% Guaranteed Notes due 1981

NOTICE IS HEREBY GIVEN that in accordance with the provisions of the Indenture dated as of July 1, 1975 of Occidental Overseas Limited and Occidental Petroleum Corporation to Marine Midland Bank (formerly Marine Midland Bank-New York), as Trustee, $1,800,000 aggregate principal amount of Notes will be redeemed on July 1, 1978 (herein called the "Redemption Date") at 100% of the principal amount thereof without premium pursuant to the Sinking Fund provisions of the Indenture. As provided in the Indenture, the Notes selected for redemption by the Trustee bear the following distinctive numbers:

COUPON NOTES OF $1,000 PRINCIPAL AMOUNT OUTSTANDING

M-16	1867	3666	5450	7146	8880	10620	12385	14106	15908	17665	19427	21208	22741	24768	26503	28271
36	1882	3682	5469	7147	8913	10625	12428	14135	15920	17682	19441	21224	22752	24781	26510	28285
55	1899	3697	5475	7175	8924	10634	12436	14139	15936	17693	19451	21240	22763	24791	26527	28316
72	1914	3715	5494	7184	8938	10656	12442	14147	15945	17707	19463	21264	22773	24800	26537	28328
89	1933	3731	5510	7212	8957	10657	12454	14156	15961	17718	19474	21280	22783	24848	26548	28341
104	1952	3746	5528	7213	8978	10665	12468	14176	15975	17732	19515	21296	22794	24858	26563	28361
120	1972	3759	5544	7256	8999	10680	12490	14230	16011	17742	19528	21309	22821	24869	26604	28372
136	1989	3775	5563	7256	9001	10731	12537	14253	16027	17753	19542	21325	22831	24882	26620	28386
157	2005	3792	5584	7277	9030	10736	12545	14264	16036	17772	19552	21341	22842	24892	26628	28417
175	2021	3808	5601	7293	9045	10747	12551	14278	16051	17856	19564	21365	22853	24899	26638	28429
195	2037	3824	5619	7321	9056	10806	12562	14289	16067	17863	19575	21382	22864	24906	26649	28442
214	2054	3841	5635	7332	9071	10811	12575	14300	16077	17874	19616	21397	22874	24911	26665	28452
235	2072	3855	5652	7349	9086	10813	12596	14307	16147	17882	19629	21410	22884	24917	26705	28473
253	2089	3870	5667	7363	9114	10826	12617	14313	16157	17888	19644	21426	22895	24923	26721	28487
270	2105	3887	5688	7379	9139	10831	12631	14326	16167	17894	19653	21442	22922	24929	26729	28513
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1625	3421	5221	6905	8656	10371	12150	13871	15700	17414	19171	20990	22561	24543	26245	28038	29669
1644	3439	5236	6925	8671	10415	12165	13888	15701	17426	19212	20997	22571	24555	26259	28058	29687
1664	3456	5253	6955	8684	10438	12183	13903	15702	17437	19225	21006	22581	24566	26301	28069	29695
1679	3471	5268	6980	8715	10446	12212	13904	15715	17456	19237	21022	22592	24579	26313	28082	29705
1694	3488	5286	6981	8730	10466	12221	13905	15716	17500	19249	21038	22619	24589	26325	28114	29715
1710	3507	5303	6995	8745	10476	12232	13917	15745	17508	19261	21062	22629	24598	26333	28126	29741
1726	3525	5316	7003	8760	10511	12247	13923	15752	17521	19272	21078	22640	24644	26346	28139	29747
1746	3545	5334	7015	8775	10525	12263	13906	15761	17540	19313	21094	22651	24656	26360	28159	29761
1761	3561	5351	7016	8790	10527	12282	14001	15821	17560	19326	21107	22662	24667	26402	28170	29779
1778	3578	5366	7017	8800	10532	12320	14013	15844	17577	19338	21123	22672	24680	26416	28183	29795
1795	3595	5381	7053	8817	10541	12326	14021	15856	17591	19350	21139	22682	24690	26426	28215	29796
1812	3612	5398	7091	8828	10580	12337	14026	15870	17611	19362	21163	22693	24699	26435	28227	29821
1828	3630	5415	7133	8851	10591	12350	14042	15880	17627	19373	21179	22720	24747	26447	28240	29841
1847	3651	5432	7145	8870	10606	12361	14072	15893	17647	19414	21195	22730	24757	26461	28260	

The Notes specified above are to be redeemed for the said Sinking Fund at the **Corporate Trust Office of Marine Midland Bank, 140 Broadway, New York, New York,** the offices of Marine Midland Bank in London and Paris, the main office of Swiss Bank Corporation in Basel, the main office of Dresdner Bank AG in Frankfurt/Main, the main office of Kredietbank N.V. in Brussels, the main office of Banca Commerciale Italiana S.p.A. in Milan, and the office of Banque Internationale à Luxembourg S.A. in Luxembourg, as the Company's paying agents, and will become due and payable on July 1, 1978. On and after the Redemption Date, interest on the said Notes will cease to accrue and the coupons appertaining thereto shall be void.

The said Notes should be presented and surrendered at the offices set forth in the preceding paragraph on the Redemption Date with all interest coupons maturing subsequent to the Redemption Date attached thereto. Interest coupons payable July 1, 1978 should be detached and presented for payment in the usual manner.

MARINE MIDLAND BANK,
Trustee

May 30, 1978

Notice of Redemption

Massey-Ferguson Nederland N. V.

9¾% Guaranteed Sinking Fund Debentures Due July 1, 1982

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Fiscal Agency Agreement dated as of July 1, 1975 under which the above described Debentures were issued, Citibank, N.A., as Fiscal Agent, has drawn by lot, for redemption on July 1, 1978, through the operation of the sinking fund provided for in the said Agreement, $1,000,000 principal amount of Debentures of the said issue of the following distinctive numbers:

COUPON DEBENTURES OF $1,000 PRINCIPAL AMOUNT OUTSTANDING

M 1	2873	5426	8003	10144	12705	14818	17002	19438	22353	24806	27326	29865	32335	35214	37288
68	2908	5437	8070	10212	12740	14824	17203	19744	22367	24810	27354	29907	32340	35257	37269
79	2947	5494	8086	10253	12767	14846	17207	19842	22376	24841	27382	29948	32342	35261	37288
110	2973	5585	8116	10301	12796	14882	17422	19895	22386	24937	27402	30088	32351	35266	37356
199	2974	5604	8135	10307	12808	14897	17444	19896	22422	24952	27474	30115	32367	35278	37411
328	3060	5632	8143	10334	12813	14920	17474	19914	22435	24983	27514	30122	32439	35311	37425
453	3068	5652	8161	10345	12819	14933	17513	19918	22443	24986	27532	30140	32488	35322	37427
463	3074	5762	8169	10368	12824	14939	17516	19956	22515	25048	27784	30163	32526	35334	37438
470	3154	5769	8170	10390	12867	14948	17535	19969	22756	25130	27825	30165	32527	35364	37441
476	3186	5770	8208	10486	12868	14957	17585	20049	22757	25179	27828	30214	32528	35439	37549
486	3190	5780	8267	10510	12989	15126	17602	20074	22850	25201	27905	30229	32551	35442	37600
496	3246	5829	8278	10539	13024	15161	17627	20093	22902	25217	27924	30246	32554	35475	37740
579	3247	5940	8301	10564	13051	15182	17657	20103	22908	25295	28058	30268	32563	35521	37767
659	3424	5976	8320	10639	13092	15253	17658	20107	22943	25300	28081	30300	32583	35581	37779
[illegible]															
2317	4781	7569	9769	12321	14368	16327	19026	21868	24148	26948	29307	31650	34295	36728	39757
2369	4834	7693	9780	12333	14371	16374	19027	21806	24183	26984	29461	31715	34299	36736	39785
2387	4855	7738	9803	12397	14421	16408	19077	22011	24210	27018	29463	31755	34316	36823	39828
2435	4857	7771	9809	12426	14451	16455	19117	22054	24320	27023	29482	31789	34458	36906	39856
2442	4880	7775	9814	12430	14500	16524	19135	22098	24344	27031	29498	31910	34724	36907	39862
2461	4890	7789	9858	12515	14560	16560	19138	22114	24348	27070	29548	31927	34730	36991	
2539	4596	7818	9911	12529	14587	16579	19185	22118	24353	27093	29551	31973	34731	37006	
2556	4930	7848	9948	12537	14607	16580	19274	22135	24395	27094	29553	32003	34885	37011	
2680	4942	7874	9949	12538	14677	16615	19299	22142	24533	27120	29601	32094	34886	37084	
2746	5130	7887	9972	12545	14681	16636	19308	22162	24576	27123	29705	32170	34984	37098	
2764	5230	7905	10015	12547	14693	16750	19333	22219	24812	27133	29712	32218	35003	37105	
2781	5362	7963	10042	12620	14714	16867	19357	22288	24756	27270	29831	32230	35054	37134	
2790	5405	7992	10060	12702	14724	16986	19414	22304	24761	27302	29849	32289	35159	37170	

The Debentures specified above, are to be redeemed for Sinking Fund (a) at the **W.C.G.-Agency Services Department of the Fiscal Agent, 111 Wall St., Bond Window—2nd Floor, in the Borough of Manhattan, The City of New York** or (b) subject to any laws or regulations applicable thereto, at the main offices of **Citibank, N.A. in London (Citibank House); Citibank (Luxembourg) S.A.; Credito Italiano, Milan; Dresdner Bank Aktiengesellschaft, Frankfurt/Main; Pierson, Heldring & Pierson, Amsterdam; Societe Generale, Paris Swiss Bank Corporation, Basle; Credit Suisse, Zurich and Societe Generale de Banque S.A., Brussels.** Payment at the offices referred to in (b) above will be made by a United States dollar check drawn on a bank in New York City or by transfer to a United States dollar account maintained by the payee with a bank in New York City on July 1, 1978, the date on which they shall become due and payable, UPON PRESENTATION AND SURRENDER THEREOF, at the redemption price of 100 per cent of the principal amount thereof, together with accrued interest to the date fixed for redemption. On and after said redemption date, interest on said Debentures will cease to accrue.

The Debentures should be presented at the offices set forth in the preceding paragraph on the said date with all interest coupons maturing subsequent to the redemption date.

Coupons due July 1, 1978 should be detached and presented for payment in the usual manner.

For MASSEY-FERGUSON NEDERLAND N.V.

By CITIBANK, N.A.
Fiscal Agent

May 31, 1978

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CITIBANK'S EXPERIMENT

Automating bank clerks

By DAVID LASCELLES, in New York

"FRANKLY, I think the standard of New York retail banking is awful."

BLUNT WORDS, all the more striking since they come from the head of the retail banking division of one of New York's larger banks. More blunt words: "In large metropolitan areas such as New York, consumers have plainly told us that the transactional dimensions of financial services stink." This time from Mr. John Reed, a vice-president of Citibank, the second largest bank in the U.S. Retail banking has a bad name everywhere.

To bank customers, it means long queues, rude tellers, meagre services, and tough conditions for credit. To the banks themselves it means costly and unprofitable business, restrictive legislation, and a perpetual and wearying struggle for deposits. However, retail banking cannot simply be scrapped because no one likes it, and its future has become the subject of much current scrutiny and discussion—and costly experimenting.

Few people dispute the reasons why U.S. retail banking is in a bad way. Unlike British banks which have been free to develop enormous branch networks over a long period, U.S. banks are tightly restricted by law. They are confined to one state, and some states do not permit them to operate more than one branch. Furthermore retail banking as a profession has little attraction. Again, in contrast with Britain, there is no tradition of local bank service in the U.S., labour turnover is high and expertise low.

Most banks have views on what should be done. But the boldest steps so far have been taken by Citibank which over the last few years has spent some $100m installing a sophisticated electronic system of "automated tellers" at its 265 branches in New York in the belief that part of the answer at any rate lies in automation.

These machines, which it developed with the help of its subsidiary, Transaction Technology, are linked to a central computer and consist of a small video terminal and a set of keys. The bank customer activates the machine by inserting into a slot a small plastic card bearing his name and punching out on the key board a six-digit identification code. The terminal then lights up with a message offering a choice of transactions: withdrawing or depositing money, transferring funds between current and savings accounts, and account information.

Expensive

The customer punches a key for the function he wants. If he asks for money, the machine checks his account and then passes out dollar notes via a revolving drum. If he wants to deposit cash, he puts it into a specially designed envelope and drops it through a slot. All transactions are recorded on a receipt printed and issued on the spot.

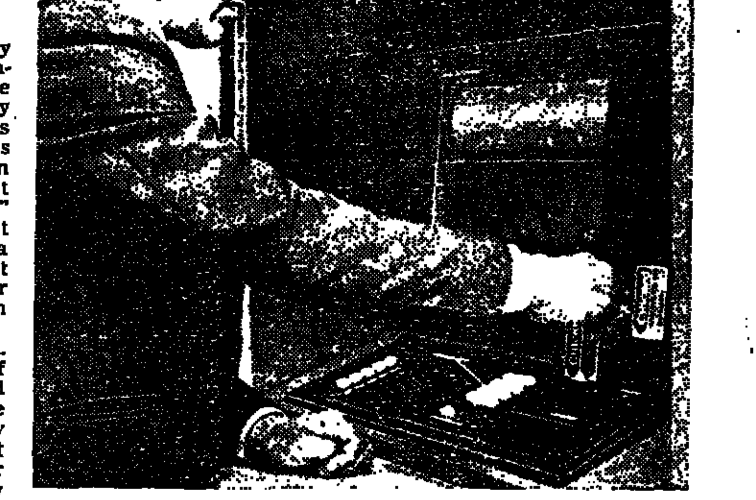
Apart from by-passing the endless queues in bank branches, this system offers the customer a big advantage. Most machines are accessible 24 hours a day, seven days a week, meaning that a cardholder can obtain banking services when he wants them. Citibank is taking no risks. Belt-and-braces fashion it decided to instal not one but two machines at every branch to ensure continuous service, and the whole system is backed by a standby. Furthermore, the system is "on line," which means that all transactions are instantly recorded, rather than summed up at the end of the day.

All of this has made it very expensive, and not unnaturally the rest of the banking community is taking a very close interest. It is now almost exactly a year since the first machines were installed, but Citibank is refusing to give out statistics on their use. The only comment it will make is that it is "heartened" by results so far and believes it is "on the right track" to win a larger share of the retail deposit market and increase the number of transactions made with each customer.

Other banks are sceptical. Some say that the cost of Citibank's programme would have to produce a very large increase of business to justify itself. Others point out that Citibank increased the number of its customer contact staff by 25 per cent last year, despite the machines. Citibank itself admits it made this increase which it says actually cost it more than installing the machines—but holds it up as further evidence of its determination to improve customer services.

Customer acceptance is another problem. Banks which are still holding back do so in the belief that account holders would rather deal with people than with machines, and that customers would fear for the confidentiality of their accounts in a highly computerised system. But despite the differing views expressed, it is pretty obvious that most people believe that retail banking must inevitably go Citibank's way, with more automation and electronic fund transfers, even though the implications are complex.

Leaving aside all the possibilities for electronic fraud or error, it would fundamentally alter the character of retail banking, and even affect the money supply. One feature of the Citibank system is the so-called day-to-day savings account, which pays some 5 per cent interest. The machines enable customers to switch funds from current to savings accounts literally minute by minute. The nifty can keep all their funds in savings until the last moment needed to meet an incoming cheque. Once the habit spreads the current account would serve no more than a rudimentary function. With a larger share of bank funds in savings accounts, the profile of the money supply—which distinguishes between money deposited on demand and in savings—would be permanently changed.



Quite rightly, the savings banks fear the consequences, because although they are permitted by law to offer higher interest than commercial banks, they cannot yet match the flexibility of the Citibank system. Indeed, the savings banks have already gone to court to forestall a reform to banking regulations which would allow commercial banks to transfer funds automatically from a customer's savings to current account in order to offset an overdraft.

In the longer term, though, Citibank's innovation could prove to be a step towards severely reducing or even eliminating cash transactions altogether. The bank currently denies that this is its intention. In fact it claims the exact opposite: the machines are there to make cash more available.

However, Citibank has already installed small terminals in selected New York shops which make it possible for the shop assistant to verify on the spot whether a customer's account is flush enough to cover his cheque.

The bank also says that its machines are desigend in such a way that more functions could be added later. As it is, customers can use them to make mortgage and other regular payments, and they can settle certain credit card accounts too. In the not-too-distant future they will be able to pay their electricity and phone bills through the machines. From there it will only be a small step to tell the machine to transfer money to any account you like, for instance, to settle a shopping bill on the spot, and a new era in banking could be upon us.

Building and Civil Engineering

Over £5m. contracts for Laing

THE SPANISH Ministry of Education has awarded contracts worth over £4.7m to Laing SA, Spanish member of the Laing Group, for building eleven schools.

One of the contracts is for six schools of industrialised construction—four in Madrid, and two at Valladolid, about 120 miles north west of Madrid. These three-storey schools, with structures and installations designed by Eurostudios, will each have 24 classrooms. Work includes the construction of in situ concrete columns and precast beams, floor slabs and cladding panels, and internal block partitions.

Under a further contract, five schools in Alicante province of south eastern Spain are called for. Two will be built in Benidorm, two in San Vicente and the fifth at Villajoyosa. They will be of traditional construction with in situ concrete frames, brick cladding, aluminium door and window frames and tiled roofs. This contract also includes service installations, the provision of sports facilities, and landscaping.

In Macclesfield, council houses and two blocks of maisonettes, are to have flat roofs replaced under a contract of £274,000, awarded to John Laing North West region, by Macclesfield Borough Council. The Council's project forms the final stage in a two-phase re-roofing programme on 162 houses, and the maisonettes, on the Upton Priory estate. This nine-month long job involves the removal of existing felt and decking to flat roofs, building up gable and party walls, erecting roof trusses, tiling roofs and installing guttering.

The company's engineering division has won a £400,000 contract to rebuild the Dunham toll bridge over the River Trent on the A57 Lincoln to Worksop trunk road. This 15 month project for the Dunham Bridge Company, involves erecting a steel beam superstructure with a reinforced concrete road deck, the new structure occupying the same piers and abutments which supported the original cast iron bridge erected in 1832.

Planning a big project

SECOND YEAR extension of a planning and estimating contract awarded to Frederic R. Harris, consulting engineers and Logica, management and systems consultants will bring in close on £1.6m to the partners.

They are working on budget evaluation and cost estimation for the two major cities of Jubail on the Gulf and Yanbu on the Red Sea which will eventually house 150,000 people each.

There will also be extensive industrial and commercial developments.

This is the world's largest construction project and the UK team's services are aimed at systems to cover some 200 different kinds of construction project including roads, power, water, housing, schools, hospitals and shopping centres.

Desalination projects are also on the stocks.

The first year's work of the team provided the Royal Commission for Jubail and Yanbu, under Dr. Farouk Akhdar, with a complete set of single parameter cost estimating rules for the budgeting of the variety of construction projects involved.

Detailed cost models are being developed and a start is being made on a computerised version of the whole system.

£4½m. offices in Trinidad

A CONTRACT for the construction of a 14-storey office block located at East Dry River, Port of Spain, has been awarded to Engineering Enterprises, the Higgs and Hill Group's associated company in Trinidad.

The Trinidad and Tobago Government has committed £4½m for the building which will be of reinforced concrete construction. Extensive use is to be made of exposed aggregate finish to precast panels and in situ walls on all elevations. Fixed glazing, full air conditioning and electrical installations are included in the work which has already started and is due for completion in the summer of 1980. Architects are Newell Lewis Broadbridge Associates.

£2m coal plant

THE NATIONAL COAL BOARD has awarded a contract worth over £2m to Bovis Civil Engineering which is to build a coal handling plant for the Opencast Executive at Maryport in Cumbria.

The contract includes the design and construction of crushing and screening plant capable of handling a 250 tonne/hour input of coal delivered to the site by road. The new plant supplements existing equipment.

The company will also build a 900 metre long conveyor to feed coal into a new rapid rail loading complex which includes a storage bunker of 1,800 tonne capacity, a rail batching conveyor and automatic sampling equipment.

Tunnelling work for Mowlem

THREE tunnelling contracts, valued together at about £2.3m, have been awarded to John Mowlem.

The largest, worth £1.8m and for the Thames Water Authority, is to build two sewer tunnels in Rotherhithe, London, as part of the infrastructure for the Surrey Docks redevelopment scheme.

Involved in this job, due to be started soon, is a 940-yd long tunnel, 5.5 ft in diameter, a 250-yd tunnel, 6.5 ft in diameter and a short length of pipework to be constructed in a trench. The work also includes access shafts and in situ concrete lining to the tunnels. Completion is due in spring 1980.

Also in London, Mowlem has just started on a £350,000 contract for the London Telephone Region of the Post Office. This is for a tunnel about 1,300 yds long and 4 ft in diameter, under Marylebone High Street and New Cavendish Street, Marylebone, to provide new telephone ductwork. Completion is due next month.

In Southampton, A. Macholz, main contractor to the City Council, has awarded Mowlem a contract worth £103,000 to construct a 4 ft diameter tunnel as a floodwater relief sewer at Bitterne Park, on the eastern edge of the River Itchen. Work has just started and completion is due in late December.

Big move on the Thames

THE BIGGEST and most difficult operation to be carried out by engineers at the Greater London Council's Thames Barrier since work started at Woolwich in 1974 is scheduled for June 1.

It involves the movement of a barrier sill across the river to a resting site near the barrier position.

The sill weighs 10,000 tons, stands as high as a three storey building (30 feet high) and would take up the whole of Piccadilly Circus (92 feet wide and 200 feet long).

Four tugs will tow the sill out of the dock on the north side of the river at Silvertown to a spot just upstream of pier seven on the south side at Woolwich where it will be moored until required.

Eventually the sill will be floated between the piers currently under construction on the south side at Woolwich and sunk into dredged trenches. It will rest there in the river bed with its curved top ready to house one of the barrier's massive steel gates which will arrive later. The sill will enable the gates, when not in use, to lie horizontal in the river bed and beneath passing ships.

Port power job in Dubai

A £2M contract has been awarded to a Staveley company for electrical installations at the Port Rashid Extension, Dubai, *being built by the Costain-Taylor Woodrow Joint Venture.*

The Port Rashid Extension is due for completion early in 1980 and all works are under the supervision of Halcrow Middle East.

The electrical contract will be handled by Zener-Colston, a company established with local partner Zener Electrical Services, Dubai, by Colston Electrical Co. (Staveley Industries).

This contract will extend the Staveley group's activities in Dubai, where it has already received orders worth £9m including the supply and commissioning of machine tools for the repair workshop of the Dubai dry dock and ship repair complex being built adjacent to Port Rashid by the Costain-Taylor Woodrow Joint Venture.

Jarvis wins £3m work

WORKING TO the designs of A. H. Brotherton and Partners, J. Jarvis and Sons is to double in size an extension which it is currently building for Boddingtons' Strangeways Brewery in Manchester. This contract is one of several worth a total of £3m won by Jarvis.

In Southampton, a workshop and two-storey office block are to be built as extensions to the Lex Tillotson complex at Totton. The Raymond Spratley Partnership has designed these facilities for the construction of special vehicle bodies.

In London, Jarvis is adding a six-storey extension to Wigham House, Barking, Essex, which it built in 1975 for Wigham Poland Holdings. The Owen Luder Partnership are the architects.

At Basildon, Essex, a workshop and other facilities are being built for Gilbarco, which manufactures electronic petrol pumps, while for the Clarke and Spears Group, Jarvis is building a warehouse at Burnt Common Nurseries, Send, Surrey. Consulting engineers R. T. James and Partners have designed a two-storey office building to be erected within the warehouse.

£2¾m brick plant

THE MINISTER of Housing and Construction, Reginald Freeson, officially opened last week the *largest factory in the country* specialising in the production of engineering bricks.

Howley Park, near Dewsbury in West Yorkshire, is a £2.75m complex whose plant incorporates some of the most modern brick-making equipment in Europe, producing over 1m. bricks a week for George Armitage and Sons. Although the emphasis is on engineering bricks, the company also produces smooth faced bricks which are widely used in housing developments as well as in the industrial and other non-housing sectors of construction.

The message—brick is beautiful—is underlined throughout Howley Park. An exhibition of external brick walls including the structural brickwork "pocket" retaining wall, all built with the company's products, is displayed outside the factory's offices.

A brilliantly sculptured panel, "Sport in the Ridings," by artist Walter Ritchie, in a specially *designed brick display by Andrew Bain*, is featured in the reception area of the offices, and would undoubtedly enhance a wall at the Tate Gallery.

A workforce of 70 operates on a two-shift system, covering a 24 hour a day process. Green brick production is on a five-day week cycle, with the kilns operating round the clock throughout the year.

The commissioning of the production units at Howley Park and its sister factory Swillington has coincided with a renaissance in brickwork as the prime building *material for cladding throughout* the UK and, because of this, each factory devotes considerable production facilities to the manufacture of special bricks. These are either pressed or extruded to meet requirements of BS 4729.

Warehouses in Devon

SEVEN attached warehouses in Plympton, Devon, are to be built for Stubber Securities by Costain Construction. Value of the contract is £330,000.

The steel-framed buildings will occupy 3,705 square metres at groundfloor level and 300 square metres of office accommodation on a mezzanine floor. Architects are Hedley Greentree Partnership.

Lovell £2¼m for housing

TWO CONTRACTS totalling over £2¼m have been awarded to the Lovell Construction Group, both for building houses and flats.

At Inkerman Barracks, Woking, Surrey, 151 houses and flats are to be built for the Guinness Trust at a cost of £1.8m, in traditional load-bearing brick construction.

At Masons Hill, Bromley, Kent, 55 aged persons' flats are to be built for the Moat Housing Society at a cost of £539,360. A single storey building there will house the warden's flat and communal facilities. Construction throughout will be in loadbearing brick with in situ concrete floors, and is scheduled to be completed in 78 weeks.

£1m worth to Mears

TWO CONTRACTS worth together over £1m. have been won by Mears Construction for office building in Reading and Maidstone.

The first is for Phase I and II of a new two-storey administration building for the Royal Ordnance for £700,000, awarded by the Property Services Agency. This work in Reading will take 78 weeks and, in addition to the construction of the building, will include all external services.

The second job, worth £320,000, is being carried out for Municipal Mutual Insurance, for a new office block in Maidstone. The company will carry out all external services together with the construction of a concrete access road at the rear of the new reinforced concrete-framed 3-storey building with basement.

Work here is scheduled to last for 50 weeks.

New life in a derelict centre

MORE THAN 100 acres of derelict land in Birmingham, site of the former Yardley Sewage Works, is to be reclaimed by C. Bryant Civil Engineering, for Birmingham District Council *which plans to use the land for leisure and industrial purposes.*

The award of the £1m. contract to salvage the site, won in competitive tender by Bryant, follows a successful design scheme for reclaiming the old Saltley sewage works and its transformation into the Gravelly Industrial Park, now a model industrial estate.

The main task for Bryant, in addition to some culverting and drainage works, involves clearing an accumulation of an estimated 200,000 tons of industrial and domestic sludge and distributing it uniformly over the major part of the site. It will then be sealed to contain known contamination and, finally, dressed.

Mixed run for Tilbury

A VARIETY of contracts has been awarded to Tilbury Construction.

In London, the group is to construct a road along the line of the old Surrey Canal in Lewisham (£800,000), undertake cable troughing at Hackney for the Central Electricity Board (£350,000), and build roads for the London Borough of Richmond.

Further afield, extensions are *to be carried out at the Courier* printing works at Tunbridge Wells, Kent, at a cost of over £400,000 and work carried out in connection with the Towcester, Northants, flood relief scheme (£400,000). Other work is at Trebor Sharp's factory at Colchester, Essex (£300,000) and at Lowestoft where a slipway is to be provided for George Prior Engineering.

Pentos £2m at home and away

CONTRACTS for over £2m have been won by *Pentos Construction* Group for work in the Middle East and Wales.

The company will build a £1.1m extension to the Toft construction village at the Sullom Voe oil terminal; an extension to the British Embassy in Bahrain, a £6m housing project for the Auruf Housing Foundation; workshop and canteen buildings at the Gulf Oil refinery, Milford Haven, for Bechtel Great Britain and a further phase for the C.E.G.B. pumped storage scheme at Dinorwick, Wales.

The majority of the construction work involved in all the *contracts will utilise different* variations of Austin-Hall prefabricated building system manufactured at the company's factory in Huddersfield. Export work is being handled by Austin-Hall International.

IN BRIEF

Mr. John Walkerdine, chairman of Wm. Walkerdine of Derby, who to-morrow will be invested as president of the Institute of Building.

- The National Building Commodity Centre (4, Catherine Street, London, W.1) has issued in the Architects' and Specifiers Guide Series of yearbooks, "External Walls 1978-79," at a cost of £3.50 (including p and p). The publication is said to contain a mass of information for use as a quick source of reference for primary research and specification for all sectors of the construction industry.
- A specialist division to handle office and shop-fitting projects, from initial advisory stages to detailed project planning, manufacture and installation, has been set up by New Dimension, 165, Upper Heath Lane, Dartford, Kent.
- Two *contracts together worth* over £157,000 for the construction of staff quarters for two children's welfare organisations in different parts of the U.K., have gone to Guildway of Guildford.

Technical News

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● POLLUTION

Safe disposal of toxic waste

WITH THE growing emphasis on regulation of the disposal of toxic waste, especially in the U.S. where the Environmental Protection Agency has been given extensive powers, there is great interest in methods of treating this type of waste so that it can be handled safely and disposed of in such a way as to present no hazard to the environment.

One method, on which patents are held by Leigh Interests, consists in mixing the waste, in solid or liquid form, with other ingredients, including a powdered plastics material, which causes the whole mass to polymerise and, after a brief period, form a dense homogeneous mass which can be shown to be impervious to water leaching.

The company has called the process by the name "Sealosafe."

First step in the treatment consists in analysing the wastes for their exact chemical content and blending the waste after the addition of certain chemicals. The next stage is the addition of the plastics "starter" and a powdered material which is itself a form of waste.

During the process, the soluble waste forms strong chemical bonds with the process chemicals while the insoluble material is trapped within the polymer lattice.

Disposal by burying, the company claims, holds no dangers since even should the plastic break up under earth forces, the chemicals would not leach out of the shattered material.

Exceptions to the treatment are plastics, greases, organic solvents and paints. But work is in hand to extend the Sealosafe treatment to these substances, which can already be dealt with provided they form no more than a small proportion in a mixture.

The Sealosafe patents run till 1990 and the company has, in addition to the original plant at Aldridge in the Midlands, recently brought on stream a second plant on the site. At the same time, in a joint venture with Tunnel Holdings, a plant has been set up at Thurrock in Essex with an initial capacity expected to be about 100,000 tons of waste a year.

● SERVICES

Short-cuts on demand

BELIEVED to be the first optimisation programme of its type available in Britain, the Compact microwave optimisation package now offered by LUCS as an interactive design service can do two very important jobs. One is to analyse performance of complex high frequency and microwave circuits and the other is to isolate, during a design operation, proprietary circuit components which offer optimum performance characteristics for a stated situation.

Layout of microwave circuitry is not easy and companies which have been involved in this particular area of electronics for many years have a number of solutions which are not generally known, other than through the products they have developed primarily for military use.

It follows that, since Compact includes a library of parameters for such products, it will quickly span many years of research and development at one pass.

A circuit designer can learn to use Compact in a few hours without any knowledge of programming and can then go on to carry out a complete circuit optimisation in a very short time, spending a minimal amount in sterling.

LUCS is at 39, Gordon Square, London WC1H 0PD.

● ENERGY

Big battery under test

IN A MAJOR step towards the development of a high energy electric battery, scientists in British Rail's Research and Development Division have activated a 10 kWh sodium sulphur unit at the Railway Technical Centre, Derby.

The project is aimed at producing a reliable rechargeable battery which can produce the same output as a lead acid battery of five times the weight. This battery is expected to find considerable application in transport systems, and British Rail is particularly interested in its use for rail traction.

British Rail first started work on sodium sulphur cell technology in 1967. Since 1974, BR's work has been part of the nationally co-ordinated programme of research sponsored by the government. Under this programme, research being carried out in Britain at three laboratories, Chloride Silent Power, Harwell and British Rail, was co-ordinated to make the best use of resources and create a fund of common knowledge to ensure that Britain's knowhow in sodium sulphur cell technology progresses.

Until now, the work of BR's sodium sulphur cell project team has concentrated on developing the technology necessary to build individual cells and acquiring a fundamental understanding of their operation and performance.

The 45 volt 10 kWh battery now under test uses 176 cells built from components designed by BR to be easily manufactured using mass production techniques. The battery has a capacity of 288 Ah and an internal resistance of 110 milliohms. Sixteen different experiments within the battery are being monitored by recording instruments as the battery is charged and then discharged at differing rates. Initial tests have demonstrated the safety, reliability, ease of assembly of the current cell design and also shown that cell capacity is not affected by charging and discharging.

Work will continue towards the construction and evaluation of an 800 Ah capacity battery and ultimately in the further study of rail traction applications. More on 01-262 3232.

● MATERIALS

Synthetic paper

IN THE late 1960s, serious interest was shown in plastic papers which, like most plastic materials, are based on petrochemicals and are a natural development for manufacturers of polyolefins, such as high density polyethylene and polypropylene.

In conjunction with Union Carbide Corporation, Bakelite Xylonite of Clacton-on-Sea, Essex, started to produce bi-axially oriented film suitable for printing by conventional printing machinery, especially litho presses, in late 1967. The film was based on filled high density polyethylene, and was essentially similar to Polyart 1 as now produced. The company wished to cheapen the process and improve the properties of this product, with the result that it has now launched Polyart 2.

The qualities of the newest product offer many applications where the choice of synthetic paper has usually been prohibited because of its expense or difficulty in use. This latter material's writeability is a significant feature for business forms, documents and envelopes—it can also be perforated and punched for business form end-uses.

Its absorbent surface, foldability, printability and easy handling makes for happy use by small jobbing printers and in-house printing departments, it is claimed. The small offset printer can more easily produce literature, factory documentation, folders, and similar commercial print to stand up to rough handling.

Obvious applications are for technical manuals, restricted circulation documents, and because of its waterproof qualities, it can be used for maps, the pages of cookery books, educational books (replacing the old, expensive, linen-books for small children), a one-off job for seed manufacturers who, hitherto, have had to enclose seeds in foil within an outer envelope, and in the label market, it can be used for chemical labels.

Durability being an inherent feature, the product could be used for driving licences and may even serve for the production of low denomination currency in countries where humid climates reduce conventional paper notes to a soggy mess. More on 01-629 8100.

● COMMUNICATIONS

Data with images

DYNAMIC Technology, of Acton (a London Weekend Television company) has developed equipment based on the Teletext idea, that will enable cross-country and international programme material to be accompanied by essential written information for production and administration purposes.

Before the introduction of satellites and modern terrestrial links, film or video tape was transported physically together with written information providing cueing data, identification picture information—known in the industry as "dope."

The new system is thus called "dope on vision" (DOV). The data is digitised and inserted into the picture signal at the point of transmission, using the normally unused and unseen lines at the top of the picture.

ASCII code is used, and a simple decoder at the reception point delivers its output to a teleprinter, producing a permanent record.

More from the company at Alliance Road, Acton, London W3 0BA (01 993 2401).

● COMPONENTS

Transformer improved

GEC DISTRIBUTION Transformers has devised a way of making its product which, although use is made of modern resin encapsulation, does not entail the manufacture of a large number of different moulds to suit different electrical ratings.

Using the technique, high voltage windings are assembled in the annular space between two concentric resin glass cylinders, which is then packed with suitable glass material; the completed assembly is finally vacuum impregnated with resin.

Materials used in the windings and for encapsulation have similar coefficients of thermal expansion.

Of importance to the company is that standard mould sizes do not determine electrical size: wide varieties can be catered for without incurring high tooling costs. More on 0843 602121.

Carries engines

AN ENGINE mounting, moulded in specially formulated rubber, in the shape of a large, hollow triangle has been added to the Delta range made by Silentbloc (a member of the BTR group).

Together with associated clamps and bolts, the mounting will be used to support Turbo-Union RB 199 engines while in transit to countries operating Panavia Tornado multi-role combat aircraft.

Designed to provide complete protection from shock—particularly to the turbine's vulnerable bearings—the mounting is said to eliminate the need either to dismantle the rotor or to keep it turning while it is being transported.

More on 0293 27733.

● DATA PROCESSING

Chip guards secrets

INTRODUCED by Intel is an integrated circuit chip that codes and decodes data in accordance with the U.S. National Bureau of Standards recommendations.

Basically the method used is "scramble" the data before transmission and unscramble it at the receiving end.

The Intel chip makes decoding by en-route interceptions virtually impossible. The chip codes and decodes 64-bit blocks of data in accordance with a 56-bit user-specified key, to produce 64-bit cipher words. The same key is used at both ends of the line.

This means that there are well over a thousand million million ways of encoding the data, so that, even with the services of a large and fast computer it would be virtually impossible for an unauthorised person to hit upon the right key.

More about the 8294, which is designed to act as a peripheral chip in a data processing system, from 4 Between Town Roads, Cowley, Oxford OX4 3NB (0865 771431).

Memories for small machines

IN A bid for a share of the growing auxiliary memory subsystems market, Calcomp has announced it is shortly to make available in the UK a new disc controller for IBM Series 1.

The 2451 is a microprocessor-based device which has a high-level instruction protocol similar to that found in large IBM mainframes.

It is designed to control up to eight Calcomp Trident removable-pack disc drives in any mix of the five models offered. This will provide Series I users with up to 2400 Megabytes of on-line storage.

Among the characteristics of the 2451 is an automatic error detection and correction facility, which will correct errors without any main processor intervention.

Calcomp, Copy House, The Ring, Bracknell, Berks. Bracknell 50211.

Hoskyns in hardware

KNOWN SO far mainly as a computer services company, Hoskyns Systems Development has launched itself into the hardware market with a hotel *management system which it has* designed, built and will support.

Based on Intel 8080 microprocessors and floppy discs, the equipment is housed in a simple filing cabinet and has a visual display unit for check-in, enquiry and control. A matrix printer produces bills and other paperwork.

Availability of rooms can be seen at a glance, and the reservations system includes forward capacity and room status reporting. From the audit point of view the system is self-balancing, and sales analyses are produced automatically. Clerical effort is compiling arrival and departure lists, guest credit exhaustion and similar data is eliminated.

Back office problems of food and drink control, stocking and ordering can also be accommodated.

Prices start at under £10,000. More from 145, St. John's Street, London, E.C.1. (01-251 4581.)

● CONSTRUCTION

Precast floor advantages

IT IS said that over 50 per cent of all problems experienced by occupiers of new homes are directly concerned with failure of ground floors which have sunk or lifted through subsoil contraction or expansion. Quoting these hazards and attendant dangers of wet and dry rot, attack by destructive pests and fire, the Federation of Concrete Specialists, has launched a campaign aimed at selling pre-cast concrete floors as an essential adjunct in house building.

Because of the standards demanded for hotels, schools, *blocks of flats, pre-cast concrete* floors have had a ready market, yet in the domestic field, British builders have stuck resolutely to timber and floating concrete for the construction of floors, says the Federation. A good reason has been centred around cost, yet the pre-cast concrete suppliers say that recent studies show that pre-cast compares favourably with traditional alternatives and, in many circumstances, proves less expensive.

● PROCESSING

Colour bank for paints

A PAINT MIXING machine said to provide up to 30,000 colour matches from 40 to 50 basic colours, is introduced by Inmont of Wolverhampton.

Covering cars dating back to 1948, from any country of origin, the electronically calibrated mixing unit, called the Euro-Matic 200, allows quantities of paint down to a quarter of a litre to be mixed to give an exact shade time after time.

The unit's operator consults the company's master colour formulation, from which is specified the exact quantities of base colours needed for the required shade, and then dials the "Tintometer"—this sets a level indicator for any size container, and the colorant is added until it comes up to the indicator. A second number is dialled, and the procedure repeated for the second and subsequent base colour which means that no actual weighing is required by the operator.

Unbreakable nylon pouring heads on the base colour tins incorporate shut-off action levers preventing dripping and simultaneously allowing either left or right handed operators to pour paint.

Full colour leaflet and further information from the company at James House, Rookery Street, Wednesfield, Wolverhampton, West Midlands, WV11 1UF (0902 731845).

● HANDLING

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The Management Page

EDITED BY CHRISTOPHER LORENZ

Stripping an untidy conglomerate down to its key essentials

Geoffrey Owen examines the record of Norton-Simon

"WHAT BUSINESS are we in?" Some companies answer this question in such general terms—"we're in the transportation business," "we're in the business of manipulating metals"—that it is not much help to strategic planning. Others regard the question as irrelevant, since they want to be free to pursue opportunities outside their established fields. Yet it is arguable that those companies which can answer the question in a clear-cut way, and accept its implications, enjoy a stability and a consistency of purpose which is a source of strength.

This appears to have been the case with an American company, Norton Simon Inc. (NSI), which is better known in Europe for some of its individual businesses—Max Factor cosmetics, Canada Dry ginger ale, Avis car rental—than for its own name.

Norton Simon is an unorthodox but highly successful financier who ten years ago decided to pull together into one organisation various companies which he owned or controlled — Hunt-Wesson Foods, Canada Dry, McCalls Corporation, and a big glass container business. The result was an untidy conglomerate which had considerable assets, but lacked a sense of direction.

Simon himself soon withdrew from the company to devote himself to his artistic and cultural interests. The business was run at the start by a troika which included Harold Williams (now chairman of the Securities and Exchange Commission) and the man who rapidly came out on top, David Mahoney (see inset).

DAVID MAHONEY, 54-year-old chairman and chief executive of Norton Simon Inc., started his career in advertising. He was an account executive for a New York agency, Ruthrauff and Ryan, while working his way through the Wharton School of Business. He then ran his own agency before "going legitimate," as he puts it, when he became chief executive in one of his client companies, Good Humor. He later joined Colgate Palmolive and in 1966 was appointed president and chief executive of Canada Dry, which became part of NSI.

Born in the Bronx district of New York, he has made himself a rich man: his salary and bonus amounted to $800,000 last year. In NSI he believes in paying exceptionally well for exceptional performance, with a combination of above-average salaries, large bonuses tied to achievement, and stock options.

Mahoney is a strong advocate of social responsibility in business: "The bottom line is no longer the sole indicator of the quality of corporate performance." He has recently appointed a vice-president to handle NSI's corporate social responsibility programmes, and Mahoney himself is heavily involved in various non-profit institutions, especially concerned with mental health.

After 10 years at the top of NSI, his zest for business appears to be undiminished. The idea of moving to Washington, as some businessmen have done at a similar stage in their careers, does not appeal to him. "What should I do in Washington, except spend 80 per cent of my time talking to Congressional committees? I just enjoy what I am doing, it's the most creative job I can imagine."

"The first question we asked ourselves," says Mahoney, "was—what business are we in? We decided then that we were in the consumer marketing business. Our long-range commitment was to build a major international marketing company that sold premium-branded consumer products and services."

Mahoney began his career in advertising; the marketing of consumer products is what makes him tick. The same is true of the recently appointed president of the company, Timm Crull; now 47, he had spent most of his career with Carnation, a dairy and food products company which is about the same size as Norton Simon. These men do not feel comfortable with capital-intensive manufacturing industry. "We don't know a lot about it," says Mahoney "its a different psychology."

In a group employing 36,000 people there are, of course, a number of manufacturing plants, especially on the food processing side, but they are seen as a necessary adjunct to the main business, which is marketing.

A major task after 1968 was to hive-off manufacturing subsidiaries which did not fit. "We sold 21 businesses in publishing, printing, packaging and other fields not consistent with our consumer-oriented operations and we franchised 17 Canada Dry bottling plants." About the only major manufacturing business which stands on its own, with most of its sales going outside NSI, is glass containers.

Building brands, not factories, is what NSI is about. "Brand franchises are to us what bricks and mortar are to an industrial company. A leadership brand generates strong, steady cash flow and in the large markets we serve a few percentage points in market share can mean millions of dollars in profit."

The company started life with some strong brands like Canada Dry itself, Hunt's tomato-based products and Wesson oils. The first part of the strategy was to back them with massive advertising and to broaden the range with a stream of new products, generated internally or by acquisition.

Norton Simon, which ranks just below 100th place on the Fortune 500 list, is the 16th largest advertiser in the U.S. It is normal for an NSI company to spend 5 per cent of its revenue on advertising and promotion and to derive a large proportion of its sales from new products.

The second part of the growth plan was to seek acquisitions in other consumer industries to which NSI's marketing skills were relevant.

"We wanted a business with a quick turnover, high advertising content and low capital-intensity. We wanted it to have a large presence in international markets. It had to have a critical mass: it needed to be big enough so that we could build on it and really do something with it."

Max Factor, bought in 1973 in a $480m share exchange offer, fitted this description. It was in the beauty and personal care field which was seen as "one of the highest-growth, highest-return businesses among all consumer products." Although its product line and its management needed attention (one analyst described it at the time as "the shell of what was once a strong company"), it had successfully passed through that transition from first to second generation which had almost defeated other cosmetics companies. It was strong outside the U.S., especially in the UK and Japan. Mahoney has spent heavily on Max Factor since the acquisition; profits last year were well below the 1973 level. He brought in Halston, one of the leaders of American haute couture, and has capitalised on his name, deploying it in products well beyond Halston's original area of interest.

In 1976 he acquired Orlane, the Paris-based manufacturers of skin treatment products. There is still some way to go before the investment in cosmetics shows a satisfactory return, but Mahoney is confident that he has in Max Factor a world-class business capable of exceptional growth.

The second big take-over was, at first sight, a very different proposition. When NSI joined the list of bidders for Avis, the second largest car rental company, some outsiders criticised Mahoney for going for a capital-intensive business which would weaken NSI's financial base. "But car rental is non capital-intensive," says Mahoney. "It's a distribution and marketing business, dependent on consumer awareness. It's in a market which is growing twice as fast as GNP and Avis is very strong outside the U.S."

Mahoney points out that Avis, part-owned by a Government-appointed trustee (holding the shares hived off by ITT) and part by the public, was paying appreciably higher interest rates than its bigger rival, Hertz, which is a subsidiary of RCA. "With our credit rating, that was something we could put right immediately. As for the marketing, we thought with our experience we could do that as well as they or better."

A major step take nsince the take-over is the switch from Chrysler to General Motors as the main source of Avis vehicles; one of the reasons was GM's greater strength in the truck field which is seen as a big area for expansion.

Mahoney is very conscious of the poor image which conglomerates have traditionally had in the financial community, and their reputation for issuing "phoney paper." Nothing gives him greater satisfaction than NSI's steady progression from a triple "B" rating for its long-term debt in 1968. "We paid $174m in cash for Avis and still advanced to a double "A" rating. Fiscal responsibility is the basis on which we can develop our business. It also means Mahoney sleeps better at nights."

NSI today is in four big consumer sectors—food, drink, cosmetics and vehicle rental—and it has a stake in fashion, through McCall Pattern and Halston. Mahoney thinks he can handle "one or two more" big ones.

He has kept his head office small—about 140 people, and "I'd have fewer if it weren't for all those lawyers sending information to Washington." He intervenes in the operating companies only on the big issues, or when things are going wrong. As for acquisitions, he is a man who reacts to opportunities, not a corporate planner. The Avis deal showed that he moves fast and aggressively to get what he wants.

He has not yet made a really large foreign acquisition, though not fo rwant for of looking. Although NSI did not join in the rush to buy European companies in the late 'sixties and early 'seventies, Mahoney studied several possibilities, none of which matched up to the criteria he had set.

So NSI's main route to international markets has been through buying U.S.-based companies with strong overseas connections. Canada Dry, on cof the original NSI companies, had a big network of franchised bottlers overseas, while Avis and Max Factor greatly increased NSI's exposure to world markets. This year about 23 per cent of NSI's total sales and 21 per cent of earnings will come from overseas, compared with 3 per cent and 5 per cent respectively in 1968.

Mahoney would like the proportion to go on growing, but he has not set target to aim at and he certainly does not intend to depart from his established acquisition policy. He wants NSI to be better known outside the U.S.: that is partly why he brought his directors to London earlier this month for their first Board meeting outside the U.S.

He is open to suggestions on joint ventures with European companies, in the U.S. as well as in Europe. Through its various subsidiaries NSI represents a powerful distribution organisation for a European consumer-products company seeking outlets in the U.S.

Mahoney judges his operating companies on the basis of market share, profit margin and return on grass assets, but for NSI as a whole his key measure is earnings per share which, on a fully diluted absis, have grown at an annual rate of 10-12 per cent.

Whether NSI will ever catch up with the champion of consumer products marketing, Procter and Gamble (sales of $7.3bn, net income of $61m $461m), remains to be seen. But Mahoney, like Avis, always tries harder; the momentum of the past will be maintained.

Some of the well-known brand names associated with Norton-Simon

NORTON-SIMON REVENUE AND PROFITS IN 1977*

	REVENUE		OPERATING PROFIT	
	$m	%	$m	%
Foods	846	47	67	36
Cosmetics	352	19	23	12
Fashion	59	3	11	6
Soft drinks	177	10	15	8
Distilled spirits	174	10	28	15
Packaging	188	10	41	22
Other	12	1	2	1
Total	1,808	100	187	100

* Financial year ending June 30, 1977. Avis, which was acquired in July, 1977, had revenues of $433m and pre-tax income of $36m in the year ending December 31, 1976.

A TEN-YEAR RECORD OF GROWTH

	Year ending June 30		9 months ending March 31	
	1968	1977	1977*	1978
Sales	$1,087m	$1,808m	$1,666m	$1,756m
Net income	$24m	$102m	$78.4m	$83.9m
Earnings per share:				
Primary	$0.86	$2.22	$1.66	$1.77
Fully diluted	$0.79	$1.98	$1.47	$1.62

* Avis was acquired after the end of the 1977 fiscal year. For purpose of comparison, Avis results have been included in the figures for the 9 months ending March 31, 1977.

Judge probe wins prize

HEAVEN help Geoffrey Coller's boss. Coller is a very determined and ambitious young man. The latest arrow he has added to his quiver is that of "Buyer of the Year," a relatively new award presented by Ravensdown Metals, the steel stockholders and the magazine Modern Purchasing.

His tactics for winning the competition were determined, hard-headed and professional—quite un-British in fact. Asked why he thinks he won, Coller, aged 37, and group purchasing manager of a chemical company, says: "I was competing to win, in a professional sense. I approached the competition in the same way as I approach my job."

In the final round Coller assessed the competition. He found out who his six rivals worked for, and what they did, and drew up a profile of each of them, listing their strengths, and weaknesses.

For instance he realised that a competitor from an engineering firm would be good on detail, or one from a multinational would be quick on his feet. But Coller went much further in his research, assessing the thoughts, whims and foibles of the judging panel. He read all three books on purchasing by one of the judges and read through 15 months back copies of Modern Purchasing to gain an insight into another: "In other words, I did my homework, and I think that is why I won."

He sees this as a lesson for the buyer: "When you are negotiating with suppliers you should research them in just the same way. You need to know all your enemy's strengths and weaknesses, and I did not view the competition any differently than my work."

For his efforts Coller walks off with a sculpture, and a cheque for £1,000 presented in the City's Cutler's Hall by Sir Keith Joseph.

In second place, a close run thing by all accounts, was Brian White of the Warrington company Joseph Crossfield, a part of Unilever. And third was David Potter, head buyer of Manesty Machines.

Jason Crisp

LOMBARD

Deep breathing, U.S. style

BY ANTHONY HARRIS

IT IS not only in this country that the unemployment figures are becoming something of a mystery. In the U.S., where some 9m jobs have been created since the recession bottomed, the disparity between jobs and recorded real growth is so great that forecasters there are saying that Okun's Law has gone the way of the Phillips Curve. The curve is familiar: it once related the level of unemployment to the rate of inflation, but it disappeared, as such relationships do, just as everyone was beginning to think that it was fundamentally important.

Distorted

Okun's Law, the work of Arthur Okun who was head of President's Johnson's Council of Economic Advisers, looks simpler. It relates the level of employment to the growth of output. Now it is possible that the operations of trade unions monopolies, inflationary expectations and the like have so distorted the old Phillips relationship that it is still lurking around in some unrecognisable form; but it is almost impossible to think of anything that would distort Okun's law.

Things are made by people, and making more things needs more people. Automation might account for output rising while employment stagnates, but no one has come up with any sensible suggestion why employment should rise while output apparently stagnates. You don't hire people you don't need.

Daniel Brill, the U.S. Treasury Under-Secretary for Economic Policy (and titles like that may explain a rise in job opportunities for U.S. signwriters), who passed through London last week, seems morally sure that his old friend Art Okun was right all along, and still is: in other words, if the output figures (which are estimates) do not agree with the employment figures (based on fairly exact records), then the output figures must be wrong.

The employment figures are not the only sign. The Federal Reserve index of capacity utilisation—"I helped to construct it, so I'm sure it's the best index there is" says Brill—is still in the lows 80s, which suggests considerable slack. But other indicators, such as shortages of materials, and one which surely deserves to be written up as Brill's Law, the movement of wages in commercial laundries—suggest the economy is quite stretched.

This again would make sense if the output volume figures are too low; and the fact that the balance of payments is worse than recently expected, and the inflation figure higher, also make sense if you start by assuming that U.S. statisticians have somehow missed a slice of real growth. The question is how such a thing can possibly happen.

One explanation was offered some time ago by William Janeway, the economic analyst at E. B. Eberhardt of Wall Street, who has such a deep mistrust of official figures in general that he habitually draws a distinction between what he calls "the statistical economy"—the numbers the forecasters feed into their machines—and what is really going on. It is a distinction worth remembering.

Janeway's suggestion—another Law?—is that at times of recession, manufacturers start offering discounts on list prices: that is the form competition takes. Officials, however, get no discounts when they enquire about prices, and base their indices on the lists. Then they divide the turnover of an industry by its price index to get a figure for "real" output. If the average negotiated discount is only 3 per cent, then industrial output is understated by 3 per cent. It's quite a thought.

However, if Brill is right, and the economy is now getting stretched, you would hardly expect to find the discounts which ruled during the recession. On the contrary, you would expect business prices to rise faster than list prices, so that official growth estimates would be too high, not too low.

Suggestion

However, the resourceful Mr. Brill has a new suggestion on somewhat the same lines. He reports that U.S. businessmen are totally convinced that President Carter will sooner or later impose price controls, however often this is officially denied; so like a clearing bank guarding against a future imposition of the corset, they inflate their figures deliberately. If you can set a price list a few per cent above the level at which you actually do business, controls won't hurt—and the official output statistics will stay wrong.

The whole argument is not only an interesting sidelight on the U.S. economy, but should inspire the brokers and others who think that our own output statistics are too gloomy. The explanation could even be similar, if firms make a habit of getting the highest prices they can out of the Price Commission, even if for actual business purposes they charge less. I must add that the only evidence for this is the fact that the figures don't add up; but this must mean something.

THE WEEK IN THE COURTS

Dilemma of sentencing the 'Hungarian Circle'

BY JUSTINIAN

WHEN Judge Hines, QC, tomorrow sentences the five men convicted of the international bank drafts fraud (known under the soubriquet of the Hungarian Circle) he will be faced with evaluating two factors—the threat of repetition of such crime in England by the convicted men and the law's attitude to punishment for the exceptionally lucrative offences revealed by the trial.

If this country has been in the past complacently assuming that the sort of organised crime that has threatened the American political and economic systems since the 1930s could not arise here, that has proved ill-founded. Organised crime has decidedly come to Britain, but it differs from the confederated criminal organisations that have characterised North America.

The British problem is that of dealing with task forces of criminals organised for expeditions into the lucrative business of robbery and burglary. But there are signs that confederated crime along the lines of the Mafia is an exportable commodity and that the Hungarian Circle may have had financial backing from America and elsewhere.

The striking feature of the Hungarian Circle is that foreigners not ordinarily resident here chose this country as the base for their operations all over the world.

Benefit

Any prison sentence designed to protect the banking community will be largely for the benefit of the other European countries. Are we thus to use our penal system for the benefit of others?

Or should we sentence simply on a nationalistic basis, leaving it to other countries to apply for extradition after the English sentences have been served? There seems to be no consensus about how national systems of criminal justice should cope with international crime.

The insistence upon extradition arrangements tends to suggest that each country must deal with its own criminals. If Judge Hines adopts that approach the sentences may be shorter than some people might think appropriate.

Once the court is satisfied that there is little risk of future similar crime by the members of the Hungarian Circle in this country, there remains the necessity for the infliction of a penalty commensurate with the huge sums derived from massive frauds. If there were prospects of recovering a large proportion of the £100m suspected of having been lost to the banks, that might reduce the need for long prison sentences.

None of the moneys from the frauds appears to have been seized by the police. And even had they been, there is no guarantee that they would be made available to the victims of the frauds.

Indeed, two decisions in the courts last week demonstrated how defective English law still is in enabling victims of criminal conduct to recover their property or compensation for its loss.

In *M. v. Commissioner for the Metropolitan Police** police officers had lawfully seized money when arresting the offender. The pound notes (£7,000 worth) were not alleged to have been stolen, or to be the proceeds of stolen property, but to be for use in paying for the purchase of stolen property. They were not made exhibits in the criminal proceedings, but they might have been adduced in evidence.

For that limited reason the police were held entitled to retain the money. But the court refused to allow the money to be detained for providing restitution or compensation. Only if it had reasonably been required as material evidence at the trial could the police detain it.

The Court of Appeal concluded that the power to deprive a person of property, even for a time, for the purpose of punishing him by forfeiture or compensating the victim of his wrongdoing by any form of restitution could be conferred only by express and unambiguous language of an Act of Parliament. No such provision exists in our law, but cases like the Hungarian Circle trial might stimulate Parliamentary action.

Parliament will doubtless respond also to a decision last week of the House of Lords in the allied field of criminal bankruptcy.

In *Director of Public Prosecutions v. Anderson* the trial judge and the Court of Appeal had endeavoured to adapt the legislation so as to ensure that the offender who had dishonestly obtained money from his employers by deception could be made bankrupt through the more direct route of the criminal courts. But the House of Lords held that the technical language used by Parliament made that impossible in the circumstances.

The swindle had resulted in a loss of £30,000. But the prosecution, in order to limit the scope of the trial, charged him with a number of sample offences involving only some £7,000. The criminal bankruptcy jurisdiction, however, may be exercised only where the aggregate amount of the loss or damage caused by the offence and other relevant offences exceeds £15,000.

"Other relevant offences" are defined as offences of which the person in question has been convicted in the same proceeding, or which the court takes into consideration in determining his sentence.

The Court of Appeal thought that taking other offences into consideration meant what it conveyed in ordinary parlance, and for the purposes of the criminal bankruptcy order took into reckoning the other £23,000 lost *as a result of the offender's embezzlement.*

The House of Lords had no hesitation in saying that taking other offences into considerations ("t.i.c." as they are known in the legal profession) is a term of art. For courts to act upon offences which the offender had not been convicted of or has not specifically admitted, there is a special procedure for disposing of them for the purposes of sentencing and for applying restitution and compensation (including criminal bankruptcy).

System

The prosecutor's dilemma is clear. Either he must bring in a large enough number of charges to cover the £15,000 qualification for a criminal bankruptcy order, or he must bring specimen charges sufficient to indicate a system but not so many that he overloads the trial. The latter is the common procedure these days, and it was adopted in the instant case.

Specimen charges were brought totalling £7,000, but the judge said that he took into account amounts obtained by the other defalcations, though these were neither charged, nor admitted, nor consented to be "taken into consideration."

Sensible as the device was that the lower courts adopted, the criminal bankruptcy order was invalid. The employers will be left to their civil remedies to recoup themselves of their losses.

Judge Hines will not face any such technical difficulty. But he may face the problem that any bankruptcy order against any of the members of the Hungarian Circle is unlikely to produce any assets that may be secreted abroad. International crime is now so prevalent and pervasive that international action is required to garner the ill-gotten gains of crime.

Until there is some effective machineary for compensating the victims of property crimes, criminal courts will perforce resort to longer terms of imprisonment. Imprisonment does nothing to help the victims of crime and in general is futile to achieve anything other than a neutralising interlude upon the activities of those imprisoned.

The Times Law Report, May 26, 1978.

Cutting down on pipe bands and porridge picnics . . .

BUENOS AIRES, May 29.

FROM THE BLIZZARD of commercial bric-a-brac that has surrounded Scotland's World Cup football team since it fell under the control of Ally MacLeod, who sometimes seems as much a merchant as a manager, just one snowflake has settled on me: it came in the form of a blue teeshirt bearing the slogan "Scotland for ever" and was given gratis to pressmen by a company that sells boxes of matches.

I shall wear it as often as a slight sartorial sensitivity and a deep-rooted cowardice permit. I shall wear it not with pride, but rather a sense of obligation . . . for the Scotland team newly arrived here in Argentina for the start of the World Cup this week will need to be able to look around and count on every friend they can muster.

Argentina has spent a sizeable chunk of the $700m budget for this amazing tournament upon a campaign for public politeness, with the slogan "Senor, our nation is competing also in the streets and the stands." TV commercials that show local diners falling over themselves to explain the menus to bemused foreigners are one example: street posters showing a cartoon character with a scowl overprinted with the word *Prohibido* are another.

Scotland, let us be clear, have not been excluded from the benefits of this stage-managed bonhomie. Indeed, the only recent scene to rival in eccentricity *Scotland's departure from* Glasgow was that which greeted their arrival in Cordoba: 40,000 nuts at one end paying 50p to wave at the squad in Hampden, 40,000 more to cheer as the team's broken-down bus was pushed the last kilometre to its HQ at Alta Gracia.

Cutting down on the pipe-band displays and porridge picnics offered by stalwart emigré groups are Mr. MacLeod's only problem so far. But then so far no one has kicked either a football or a footballer in earnest.

But, while a mere Englishman could earn a stern lecture in an Aberdeen temperance meeting or a sound kicking in a Glasgow pub for saying as much, the world generally does not make much distinction between Scottish and British.

The world of football, indeed, rather suspects that the terms are interchangeable and that we keep these odd United Kingdom labels only to give ourselves four chances of sneaking into World Cup finals instead of one.

Thus Scotland, not in the least helped by having a captain in Rioch who was born in Aldershot and talks more Hampshire than Sauchiehal Street, are here firmly saddled with the past football crimes of the entire UK. These may not seem to amount to much more than a 90-minute misunderstanding some 12 years ago, when England beat Argentina 1-0 at *Wembley* on the way to winning the 1966 World Cup. During that game the Argentine captain, Rattin, was ordered off.

It was Orwell or G.B.S. or some other gifted know-all who once opined that international sport was an unfailing cause of ill will between nations. The aftermath of the Rattin incident is his total proof. Twelve years on and the Soccer-mad masses of Argentina still parade mental effigies of British footballers pierced with pins through every

WORLD CUP

BY ANDREW CLAIRE

conversation. They hear your accent on a bus . . . shake a disapproving finger . . . "Ah, Rattin!"

Those with whom you share a language may even ask you "was it true?" The question they do not even bother to put because you have both heard it so often before is whether it is true that Senor Rattin was a victim of a plot involving British players and politicians, the German referee, and the Queen, who later knighted Herr Kreitlein and awarded him vast estates in East Anglia.

Again and again the nations have come together in friendship and barely has the make-up kissing stopped than the kicking begins again. The root trouble is a vastly differing interpretation of the laws.

In Europe and Britain especially, the laws are the barriers to keep in check the fast physical content of the game as it is best loved: in South America the laws are the framework on which the Latin footballer likes to construct his playing patterns at a tango tempo.

As recently as last month Brazil, thrice world champions, were at Wembley, kicking lumps out of England, presumably to sharpen their studs for what they regard as another unavoidable collision between the styles.

We could be a bit more sanguine about Scotland's chances of avoiding becoming the butt of this competition—the focus for the anti-European feeling that will inevitably swell—if they had shown signs of being more aware the problem exists. But they, too, spent their last international contest hurling horrific tackles at English rivals instead of using the meaningless home championship match to practise the now-necessary art of winning the ball without walking all over the man who holds it.

In their favour, certainly, is the fact that this is a much gifted team in the individual sense. Although the Scotland squad seems invested with midfield men as a cornfield has mice, there is talent enough to shuffle several ways, and still arrive at a winning combination—provided they can all contain their natural aggression and steady their uncertain shooting aim.

In their favour, too, is the fact that not more than a few hundreds of their notoriously unstable fans will be following them to Cordoba despite all the wild talk of a year ago, when anything that moved from U-boats to zeppelins were supposed to be pressed into service to move Ally's Tartan Army, that army will be present only in platoon strength.

So the widely publicised threat of Glasgow Goths taking Cordoban monuments apart like some lifesize leggo set now recedes.

The hosts, Argentina, remain the favourites. Four of the previous ten tournaments have been taken by the country that picked up the bill for staging the thing, and twice more the local team has come second.

One man who has been declaring most loudly that Argentina cannot fail is a huge and handsome defender called Daniel, who tells all who listen "Stiles won the 1966 cup for England. I do the same job as Stiles . . . but I am much, much bigger."

Not wanting to do yet more damage to Anglo-Argentine relations I shall record without further comment that this hero's surname, which he shyly exhibits on a silver bracelet picked out in diamonds, is . . . Killer.

An embarrassment of riches

THE ENGLAND selectors had only one problem when choosing the 12 for the first Test against Pakistan on Thursday—an embarrassment of riches.

They have included Hendrick, more penetrating in England than John Lever who, because he is left-handed, has proved more effective in conditions abroad, where difference in line gives him the edge.

It is hard luck on John, as each international appearance is now worth £1,000. But he might reflect on the fate of a great left-arm opening bowler of an even richer era, Bill Voce, who made three trips to Australia, but never played in one Test in England.

The final place in the team will presumably be between Hendrick and Edmonds, a fourth seamer, or two spinners, according to conditions.

England, short of class batting apart from Boycott and the promising Gower, have plenty of depth and should beat Pakistan inside the distance, unless Edgbaston is exceptionally docile.

But it should be harder than the one-day internationals, as our young visitors have yet to come to terms with that type of game.

If the tourists had included their Packerites Imran, Majid, Zaheer, Mushtaq and Asif, they might have won their first series in England. They have been further handicapped by the weather and lack of practice.

CRICKET

BY TREVOR BAILEY

Fortunately, the sun has been shining at Canterbury and gave some players confidence after scoring runs in the middle.

But it is hard to imagine their attack dismissing England twice. Apart from Sarfraz, their quick bowlers lack pace and experience *for this level of cricket. Their* two slow orthodox left-armers and their collection of leg-break and googly bowlers have yet to adapt to the demands of our pitches.

In Pakistan, Abdul Quadir worried our batsmen last winter with his flight and spins and they also had difficulty in picking his googly.

He has found our wickets too slow and short of bounce—unfortunate, as he is a fine spinner and overseas, one would put him into the same category as Gupte.

He is now troubled by a shoulder, probably the result of trying to push the ball through more quickly.

Their left-arm spinners, Iqbal Quassim and Naeem Ahmed, have met a snag over here which I have never considered before.

The lush grass of our outfields helps the ball stay shiny. This means that, unlike in Pakistan where the surface of the ball is quickly roughed, they are having difficulty in gripping it.

As a result, they are not only *having trouble imparting* as much spin as usual, but are also tending to stray down the leg side, which is fatal.

Faldo gives British golf hope

NICK FALDO won his first victory over 72 holes by running away with the Colgate PGA Championship here at Royal Birkdale yesterday by seven shots. His rounds of 71, 68, 70 *and 69 gave him an impeccable* total of ten-under-par 278 that left him comfortably clear of another British player, Ken Brown who took 285. Howard Clark, who was two under par, made it a British 1-2-3.

At last one sees some hope for British golf. Gary Player was 20 years of age, as Faldo is, when he won the 1966 Dunlop Tournament. So Faldo has really achieved a momentous triumph in British golfing history.

His task was made easier because Dale Hayes of South Africa, and another British player, Peter Townsend, playing together in the penultimate group, took 82 shots each to wipe themselves out. Hayes tangled with a number of bushes in running up a nine at the 13th hole. Townsend, out in 37, started back six, six, five, and finally ran up a score of 44 shots for the inward half as did his burly rival.

There was little doubt that in these perfect weather conditions the tournament would be decided over the first six holes or *the last six.* The first six are most difficult in terms of par figures: the last six are significant because four of them are

GOLF

BY BEN WRIGHT

par-fives, which can easily fall to eagles and birdies.

Faldo had started four shots ahead of Clark, but missed the green at the 4th hole and chipped up to 8 ft. Meanwhile Clark was nestling 12 ft from the hole for a marvellous birdie two, so the pressure was very much on Faldo to get down in a single putt. If he did not, he would have been only one stroke ahead. The putt went unerringly into the centre of the hole.

Thereafter Clark never got a look in, as the tall 20-year-old pulled further and further away.

I have spent considerable time with Faldo this week, and I am convinced he is of championship potential. On Sunday he played a brilliant iron-shot to the last green, having been considerably disconcerted by a television camera-man.

I asked him at dinner whether he had been upset by continually having to tell the person in question to move away, and he replied: "No, I have got to get used to this kind of thing, and as long as their feet are not in my eyesight, I will go ahead and play."

Faldo told me that because he is sick of running to keep fit, he will ride a bicycle—at which he was near to Olympic standard—in the days ahead to keep himself in good shape for the Open championship.

British golf has won a notable victory but it is no time for euphoria. We are miles behind the Americans, but have a chance of catching up in the near future.

Lester Piggott at his best

A BUMPER crowd at Sandown yesterday was treated to a superb exhibition of jockeyship by Lester Piggott on Elland Road. Piggott kept the Red God bay covered up in the five-runner field for the Whitsun Cup until a furlong from home, when he produced him with a finely timed run to take the four-year-old to the front on the post to head Greenhill God.

Thirty-five minutes earlier Piggott never really looked like lifting the biggest prize of the day on the Esher course, the Brigadier Gerard Stakes, on Uncle Pokey. Although this Luca Cumani four-year-old, who recently ran second to Balmerino at Goodwood came with a strong run in the last 200 yards, he never looked like troubling the favourite, Gunner B, who was following up a two-length Earl Sefton Stakes success over Uncle Pokey. The remaining six runners never really threatened to take a hand.

The big disappointment of the afternoon was the abysmal showing of Music Maestro in the Temple Stakes. This Newmarket-trained three-year-old, rated by his able young trainer, Michael Stoute, a leading contender for sprint honours, following an encouraging run in the Palace

RACING

BY DOMINIC WIGAN

House Stakes, was not quickly away, and never looked capable of retrieving the lost ground.

Scrubbed along by Greville Starkey from the halfway point, Music Maestro—a strong and powerfully made Son colt—never held out any hopes for his backers. I cannot now see him making his presence felt in the King's Stand Stakes at Royal Ascot, for which he has been a long-term fancy of mine.

Although the two miles of this afternoon's Henry II Stakes may be just beyond his optimum, I intend banking on the class of Lord Porchester's Smuggler, who bids to confirm York superiority over Music Maestro's stable mate, Shangamuzo.

Half-an-hour later the Crepello filly, Glinting, should be good enough to land the Chequers Fillies' Stakes, provided that there is a reasonable amount of cut in the ground. Should the course be riding considerably faster than it was yesterday I would dissuade anyone from taking an interest in Peter Walwyn's newcomer, Martingale, a Luthier filly out of a Tom Fool mare.

SANDOWN

2.00—Picatina*
2.30—Lake City
3.05—Smuggler
3.35—Glinting***
4.10—Deepwater Blues
4.45—Geraldo**

TV/Radio

BBC 1

† Indicates programme in black and white

6.40-7.55 a.m. Open University. 1.30 p.m. Ragtime. 1.45 News. 2.30 Teithi'r Tir. 3.20 Your Songs of Praise Choice. 3.53 Regional News for England (except London). 3.55 Play School (as BBC-2 11.00 a.m.). †4.20 Champion the Wonder Horse. 4.45 Goober and the Ghost Chasers. 5.05 Stopwatch (series). 5.35 Roobarb.
5.40 News.
5.55 Nationwide (London and South-East only).
6.20 Nationwide.
6.45 Angels.
7.25 "Carry on Cruising," starring Sidney James, Kenneth Williams, Kenneth Connor and Liz Fraser.
9.00 News.
9.25 It's Marty Feldman.
9.55 The City on the Border: The BBC-1 Documentary: Londonderry.
11.00 Tonight.
11.40 Play Golf.
12.03 a.m. Weather / Regional News.

All Regions as BBC-1 except at the following times:—

Wales—5.55-6.20 p.m. Wales Today. 6.45-6.55 Wales Down Under: Wales v Sydney (highlights). 12.05 a.m. News and Weather for Wales.

Scotland—5.55-6.20 p.m. Reporting Scotland. 12.05 a.m. News and Weather for Scotland.

Northern Ireland—5.53-5.55 p.m. Northern Ireland News. 5.55-6.20 Scene Around Six. 12.05 a.m. News and Weather for Northern Ireland.

England—5.55-6.20 p.m. Look East (Norwich); Look North (Leeds, Manchester, Newcastle); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South-West (Plymouth).

BBC 2

6.40-7.30 a.m. Open University.
10.20 Worktalk.
11.00 Play School.
2.30 p.m. Having a Baby.
3.00 Open University.
7.00 News on 2 Headlines.
7.05 A Woman's Place?
7.30 Newsday.
8.10 Airport.
9.00 Rhoda.
9.25 The Man Alive Report.
10.15 Living on the Land.
10.40 Late News on 2.
10.50 The Old Grey Whistle Test.
11.30-11.40 Closedown: Sir Hugh Casson talks about "Greenwich Reach" by George Chambers.

BBC-2 Wales only—7.05-7.30 p.m. Heddiw. 11.30-11.35 A Woman's Place.

LONDON

9.30 a.m. Beany and Cecil Cartoon. 9.35 Canada Five Portraits. 10.25 "Tarzan's Three Challenges," starring Jock Mahoney. 12.00 Issi Noho. 12.10 p.m. Pipkins. 12.30 Parents Day. 1.00 News plus FT index. 1.20 Help! 1.30 Crown Court. 2.00 After Noon. 2.25 Racing from Sandown Park. 4.20 Paul. 4.45 Magpie. 5.15 Mr. and Mrs.
5.45 News.
6.00 Thames at 6.
6.35 Crossroads.
7.00 The Six Million Dollar Man.
8.00 The Benny Hill Show.
9.00 Best Sellers, part 1.
10.00 News.
10.30 Best Sellers, part 2.
11.15 Queen of Hearts.
12.15 a.m. Close: Xanthi Gardener reads a poem by Angelene Paterson.

All IBA Regions as London except at the following times:—

ANGLIA

[illegible]

ATV

[illegible]

BORDER

[illegible]

CHANNEL

[illegible]

GRAMPIAN

[illegible]

GRANADA

[illegible]

HTV

[illegible]

HTV Cymru/Wales—As HTV General Service except: [illegible]

HTV West—As HTV General Service except: [illegible]

SCOTTISH

[illegible]

SOUTHERN

[illegible]

TYNE TEES

[illegible]

ULSTER

[illegible]

WESTWARD

[illegible]

YORKSHIRE

[illegible]

RADIO 1

247m

(S) Stereophonic broadcast

[illegible]

RADIO 2

1,500m and VHF

[illegible]

RADIO 3

464m, Stereo & VHF

[illegible]

RADIO 4

434m, 330m, 285m and VHF

[illegible]

BBC Radio London

206m and 94.9 VHF

[illegible]

London Broadcasting

261m and 97.3 VHF

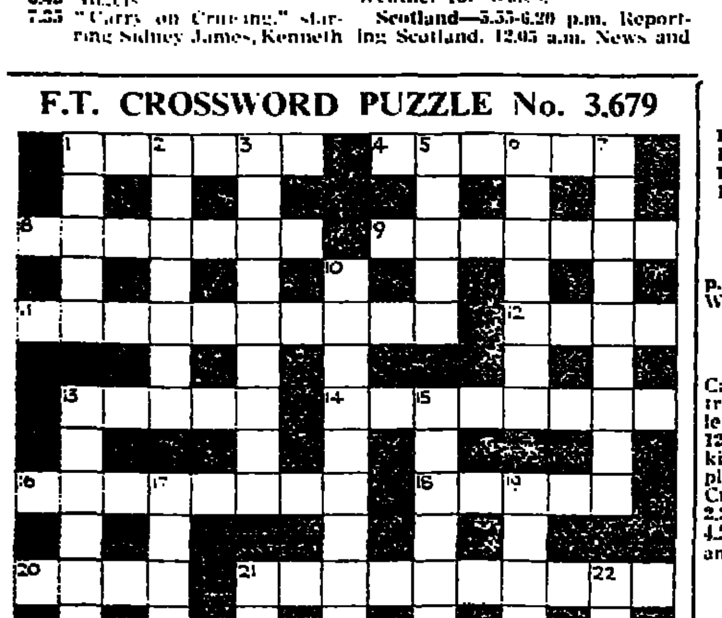
[illegible]

Capital Radio

194m and 95.8 VHF

[illegible]

F.T. CROSSWORD PUZZLE No. 3,679



ACROSS

1 It appears in identical silk (6)
4 Chaff for the weight-watcher (8)
9 Extravagant structures of absurdities (7)
11 I hastened in mad confusion to the girl in play (7)
11 Realise your vocation and the ring is yours (3, 3, 4)
12 The Irishman returns to post (4)
13 This girl is at sixes with mother (5)
15 Is old age or trouble to be found in a Utopia? (8)
16 Nobody about the French town? What rubbish (8)
18 Summoned in the hotel when quietly getting on (5)
20 A gem to be found in no paltry setting (4)
21 Picture position in a game of snooker (2, 3, 5)
23 Subtlety expresses disapproval about the Loch (7)
24 A refusal I got in Africa (7)
25 Sit back about the levies (8)
26 We do have poisonous summers here (6)

DOWN

1 Weather signal from the South—it's a piece of cake (5)
2 This cocktail could make things hot for you (7)
3 "Youth's — made for joys" (Gay) (3, 6)
5 He said he'd put a girdle round the earth (5)
6 One who follows gives a taste of things to come (7)
7 In flagrante delicto, like Tommy at the strawberry jam (3-6)
8 "Charmed magic — opening on the foam" (Keats) (9)
10 A short time to go up to the headland. That's debatable (4, 5)
14 You'll find Fleet Street indeed dispirited (9)
15 Outstanding foreigner in the street (7)
17 Amalgamation of European and Oriental can be relevant (7)
19 An edition for children . . . (5)
22 . . . and their contributions (5)

The solution of last Saturday's prize puzzle will be published with names of winners next Saturday.

Peers Spiritual from a painted vellum roll showing the procession of King Henry VIII and the Lords spiritual and temporal to Parliament in 1512.

British Museum

Pride in the past

by DR. ROY STRONG

The last major exhibition of British Heraldry was in 1934 at the College of Arms. Two generations have passed since that event and a wealth of new coats of arms have been granted to new towns, life peers and knights. We have seen the demise of the creation of an heriditary aristocracy, demands for the abolition of the Lords and attacks on the honours system. None of this, however, has basically curtailed the British love of hierarchical feudal splendour, nor much reduced the national worship of titles. As long as "Everyone loves a lord" the College of Arms, the dispensers of heraldry, is in business.

What an extraordinarily unique institution it is. A herald is part scholar, artist, actor and business man. Garter and his colleagues organise state occasions with such flair and distinction that they make Max Reinhardt's *The Miracle* look like a provincial pageant. They provide the visual apparatus, the iconography in the form of arms and orders of chivalry that maintain the mystique of the social pyramid and replenish the fount of honour. Doubtless if the commissars came some little bangle and legend would be invented for them, too.

So the British Museum's exhibition of British Heraldry is a splendid celebration of our basic love of inequality, our magnificent snobbery over nine centuries from Norman feudalism to the so-called egaliterian present. It is an explosion of richness, of jewels, badges, robes, illuminated manuscripts, porcelain, portraits, medals and seals, and all revealing that coats of arms have served the decorative arts more than well. Heraldry remains today one of the few motifs left in the ravaged repertory of decoration, the rest destroyed by the modern movement in the arts. The only disappointment is that space has not allowed the organisers to take the story in any detail down to the present beyond a photograph of the Queen enthroned at the Coronation. But this is a minor quibble in a feast medieval in its number of courses.

It is worth going to this exhibition to see the Great Tournament Roll of Westminster alone.

This marvellous evocation of early Tudor court pageantry and ceremonial celebrates the birth of a male heir to Henry VIII in 1511. Tragically the child died a month later or else the course of British history would have been far different. Nothing captures the gaudy magnificence of this era so well as when Henry deliberately set out to emulate the court of Burgundy. The knights are arrayed in puce, emerald, crimson and gold, baldichinnos are borne over their heads. Henry VIII as Coeur Loyal tilts before his Queen who sits snugly in a wooden gallery swagged with rich fabrics. Don't miss the black trumpeter who wears a turban. He was actually in royal service in 1511 and is by no means artistic licence but rather the opposite, reinforcing the view that this is one of the earliest records ever in this country of an actual historical event.

The exhibition is full of representations and relics of the spectacles of state which were organised and marshalled by the heralds. It made me remember a ballet critic who remarked that the Duke of Norfolk in his role as Earl Marshal was the world's greatest choreographer as reflected in the stately *ballet de cour* of coronation and royal funeral.

Here Henry VIII wends his way to parliament preceded by his lords spiritual and temporal rich in crimson velvet and ermine. The perspective is that of rank so that the heralds form an escort of midgets. Elizabeth Tudor sweeps by attended by her Knights of the Garter pacing along an open arcade which looks onto landscape reminiscent of the Rhine valley and makes Windsor into Neuschanstein. There is her funeral procession, the hearse bearing the wax effigy in golden robes flanked by Gentlemen Pensioners, their halbeards borne pike to the ground. Or, to skip a century, there are Highmore's drawings of the ceremonies attending the resurrected Order of the Bath, testimony that even in the Age of the Enlightenment there was an obsession with the panoply of medieval chivalry.

Every Ascot Week at Windsor is still prefaced by the Garter procession and service. The history of any institution which includes simultaneously the Duke of Grafton, Harold Wilson and Lord Longford as soulmates is certainly worth studying in depth. Although begun by Edward III the Garter was essentially a Tudor and Stuart creation in the form we know it today. It was they who built it up to rival the Order of the Golden Fleece. The garter given to the Emperor Maximilian in 1489 is merely a piece of blue fabric enriched with silver and set with enamelled Tudor roses. A century later that given by Elizabeth I to Frederick II of Denmark is encrusted with diamonds and rubies bordered with pearls and secured by jewelled and enamelled clasps. The handsome presence of Elias Ashmole with Windsor in the distance reminds one of his stupendous effort to recreate the Garter after the disasters of the Civil Wars. He it was whose task was to re-erect the mystique of the monarchy. Lely's elegant drawings with their muted baroque rhythms of heralds, Knights and clerics in billowing robes are a testament to Ashmole's success in putting back the clock. These are the most beautiful drawings, more than compensating for the lack-lustre quality of so much of Lely's portraiture.

Ashmole, a giant figure, reminds one of the importance of the heralds within an hieratic society. They are antiquarians and scholars, masters of precedence and etiquette, painters and, occasionally, outright crooks. And what characters they were! Noble Camden, the great historian of Gloriana's golden reign, his successor, William Segar, who sold arms to the public hangman, or Sir William Dugdale. He, sensing that civil war was near, toured London and the Midlands to record monuments and stained glass "to the end that the memory of them in case of that destruction . . . might be preserved for future and better times." How right he was! Cromwell's iconoclast troops did their worst. Via Ashmole we arrive at Anstis, reviver of the Bath but, alas, the story is cut off before we get to J. R. Planché, costume historian, herald and harlequinade librettist whose memoirs and recollections make such delightful reading.

This is not only an exhibition rich in historic and aesthetic interest, a delight, but it is much more. It is proud and patriotic. Pride of birth, pride of family, pride of achievement are what it sings. These are virtues or vices flaunted unashamedly and whose visual trappings are the language of heraldry. We should salute and pay homage.

Festival Hall

Christus am Oelberge

by MAX LOPPERT

Beethoven's oratoria, *Christ on the Mount of Olives*, has had a generally bad Press. "It is unique in Beethoven's output for its total lack of interest: it almost never rises above the merely competent, or falls below it," is Charles Rosen's formulation—one of the more recent, one of the harshest—of received opinion. The work is not given very often: before Sunday's performance (Royal Philharmonic Orchestra and Brighton Festival Chorus conducted by Antal Dorati) I had heard it only on records. The feeling it left was outright disagreement with critical authority—rare, audacious sensation!—and sheer incredulity that the obvious flaws should have blinded Beethoven students to so much beautiful music.

The flaws are those of tone. After the high seriousness opening movements, the lengthily elaborate aria for the Seraph (solo soprano), in which the chorus later joins, alters the mood into one of exuberant cheerfulness, of florid sallies above the stave to top E, in a work whose subject hardly admits of such gaiety. Further on, the chorus of the soldiers arresting Christ is similarly disconcerting. (Can this really be described as "merely competent"?)

Yet this should never have allowed the worth of the best among the 13 movements to become so severely under-rated. In the E flat minor Prelude, the recitative and aria of Jesus (tenor), the trio for the three soloists (Peter, bass, makes up the third), and the final C major chorus, the music is not only broad of manner, lofty of style, and beautifully worked in detail, but creates a uniquely rich and interesting mixture of musical manners. The worlds of the as yet unwritten *Fidelio*, of Mozart's *Flute* (in the trio) and *Clemenza* (in the final chorus), of Haydn's *Creation*, seem to meet. This is a different kind of Beethoven, but not an unworthy kind.

On Sunday one was less conscious than usual of the discrepancies in tone between text and music, if only because the RPO programme failed to print the words — still a bad thing, but perhaps a little less bad than usual. Dorati was at his very best: lucid in evocation of the musical proportions without ever inflating or underlining them, drawing supple and shapely playing — the Haydnish colours in the opening movement were particularly striking — and light-bodied but firm choral singing. Sheila Armstrong (soprano) and Gwynne Howell (bass) were in good form: the tenor, Robert Tear, communicated his involvement rather strenuously (but the music really wants a Florestan's weight, though not the wrong kind of weightiness). The Egmont Overture and then the E flat Piano Concerto, with Clifford Curzon a soloist of Shakespearian profundity, nobility, and poetry, completed an excellent Beethoven concert.

★

Peter Dvorsky, the young Czech tenor who drew attention to himself in the recent Decca recording of *Katya Kabanova*, joined the current Royal Opera *Rigoletto* revival last week for two performances. At Saturday's the second, the impression he left was mixed. Mr. Dvorsky is handsome, with a thick crop of dark, curly hair and a slim figure—the Duke Mantua benefits from such things. The voice, too, is basically handsome, more "southern" in timbre than the most famous Czech tenors, with a ringing top and an appealingly impetuous way of throwing it out.

But in a role of which elegance should be the starting point, Mr Dvorsky was not a consistently elegant or stylish singer. The phrases of "E il sol dell'anima" did not pour out, each one with a greater grace, but were pushed out effortfully. Likewise, the Duke's aria was lustily hewn instead of delicately shaped, the *cabaletta* went better. Despite a more even command of the last act, the final effect was of decent provincialism when the singer's vocal and physical talents promise rather more.

The rest of the performance was as reported by Ronald Crichton earlier in the month. But there should be a word of praise for Edward Downes' conducting, which, urgent and forward all evening, seemed to take fire in the third act. With the outstanding Sparafucile of Robert Lloyd, Gillian Knight's dark and smouldering Maddalena, and the almost unbearably touching Gilda of Ileana Cotrubas (even if, on this occasion, not in very good voice), Mr. Downes was inspired to an electrifying account of the trio and storm music—not always the climax of the opera as it ought to be and as it so fierily became in this performance. When Mr. Downes is in the mood, he is a very fine Verdian indeed.

'Flying Blind' at the Royal Court

Flying Blind by Bill Morrison will be presented at the Royal Court Theatre next month, with previews starting on June 14.

It is a comedy about life under the threat of terrorism and will be directed by Alan Dossor, designed by John Gunter with lighting by Jack Ruby.

Glyndebourne

Die Zauberflöte

by RONALD CRICHTON

Glyndebourne's second post-war *Zauberflöte*, a blue-green fairytale by Enriquez and Luzzati, lasted for 10 years. The third and newest one, rapturously received on Sunday at the opening of this year's Festival, should last longer still. The producer is John Cox, the designer David Hockney, the sponsors are Imperial Tobacco. Since the appearance of this *Zauberflöte* will bring it fame, the visual side will be described first, on the understanding that the team of Cox and Hockney have obviously worked in close accord and that the happy results should be considered as a joint effort.

It was an inspiration, after his brilliant debut as opera designer with *The Rake's Progress*, to offer Hockney another and greater opera so well fitted to his talents, where his wit and humour, his curiosity about people and things, his voracious feeling for styles past and present, his technical ingenuity and adroitness, could have full play. What one might not have guessed was the instinctive understanding here shown of the clarity and luminosity of Mozart's score through which the different layers of experience and meaning, while remaining ultimately as mysterious as ever, can be tantalisingly perceived.

The general appearance of these settings, painted on gauzes or drop-cloths which are (barring one brief accident on the first night) raised and lowered with a swiftness especially valuable in that second act which can feel longer than *Parsifal*, is Egyptian. Hockney's Egypt, though full of perspective tricks at once rigorous and entertaining, is not cold, monumental and rather off-putting like so much Egyptian art in museums, but enchanting and stimulating. Colours are strong, varied, sometimes surprising. There are one or two references to pop art, but everything is contained within the artist's own style. Costumes are mostly successful on a slightly lower plane. Hockney doesn't so far reveal the genius of the great Parisian designers (Picasso and Derain being obvious examples) for making each important costume, or bunch of costumes, add something new yet characteristic to the whole. The gym slips for the three Spirits are a minor disaster but not one would imagine, a difficult one to put right.

The spectacular side is richly furnished with a fantastic Carpaccio dragon and other animals. Sarastro is allowed his lion-drawn chariot, the all-important but so frequently skimped episode of the trials by fire and water is given great and successful prominence. Presumably the great number of flying cloths ruled out airborne spirits (the handling of these genies, visually, dramatically, and musically, is the production's weak spot) but in other respects there is plenty to show that Messrs. Hockney and Cox enjoyed reading Schikaneder's libretto—and, provided you get one with the full stage directions, a surprisingly good read it is. Some of the German dialogue, in the early scenes, was poorly handled —not much of an advertisement for opera in the original.

Sooner or later one must come to the music, and here, though there were a number of excellent and captivating performances by artists new and well-tried, the general impression was not so uniformly high. The London Philharmonic indeed gave signs that later on the already superior playing will not unsuccessfully increasing (like the herbaceous borders) bloom in the way it always does during a Glyndebourne season. Andrew Davis conducted (Haitink takes over on July 1) and did many things unobtrusively well without catching for long the essential lucidity, sparkle and gravity of the *Zauberflöte* texture as surely as designer and producer.

Of the more experienced soloists Benjamin Luxon's Papageno was outstanding for the fine quality of his singing and the impression he gave that Papageno is at least at times something more than an ordinary little fellow who happens to be a birdcatcher. The one thing Mr. Luxon doesn't possess for this role is the natural ability to clown without forcing—if only he could have borrowed some of the natural, melancholy charm of Leo Goeke, the Tamino (and Tom in *The Rake*) and lent Mr. Goeke, who is attentively and the weight of his voice, some of his dignified authority in return!

Of the newcomers the most remarkable is the Pamina, Isobel Buchanan is a young Scottish soprano now with Australian Opera. Her voice told at once. By the end of the duet with Papageno (with those long, arching phrases for the soprano that reveal so much so quickly) it was clear that Miss Buchanan has a tone of lyrical sweetness with a good middle register, that she is sensitive, and that she has the makings of a fine stage presence. All this does not add up yet to a fully-fledged Pamina (notoriously rare birds) but the promise is abundantly there. The new Queen of the Night, May Sandoz, attacked her coloratura with a welcome fullthroatedness: elsewhere the timbre, probably because of first-night nerves, was unappealing.

The forces of Reason and Order were strongly buttressed by a new Sarastro, the German bass Thomas Thomaschke, who has a warm, well-knit voice and youthful (surprisingly early-Wagnerian) appearance, and by the admirable Willard White, making his Glyndebourne debut as the Speaker.

Coliseum

Stuttgart Ballet

At the end of the first scene in *Onegin* a stream of dancers, girls held in broad leaps by their partners, speed across the stage in a diagonal, and then a drop-cloth, bathed in a seemingly faster line dashing across the stage. Last night, this was greeted with a prolonged burst of applause: the Stuttgarters were back in London, and back in the hearts of the London audience.

Cranko's adaptation of Pushkin's poetic tale has ever been sure theatre—no actress could ask for a better curtain than the final despair of Tatyana as she sends Onegin away—and the Stuttgart Ballet, at the Coliseum for the next two weeks, make grand sense of it. At the heart of the piece, of course, is Marcia Haydee's incandescent portrayal of Tatyana. Marvellous as the dreaming girl of the first scene, lost in the world of romantic novels—she is almost totally passive in the opening sequences, and you cannot stop watching her—her progress to the mature woman of the last act is a journey compellingly shown. Wonderful the way she hides in bed before the letter scene, when Haydee's eyes do more than most dancer's entire bodies; infinitely touching her duet with the "dream" Onegin, in its youthfulness and trusting passion.

Quite extraordinary the mature Tatyana of Act 3, whom Haydee makes imperfectly the mistress of her passions, but absolutely in control of her destiny. It is a superb portrait, and one exactly matched by Richard Cragun's Onegin.

Cragun gives the part the debonair, dashing charm that must captivate Tatyana, and beneath this surface elegance he shows the unfeeling, uninvolved heart. It is the especial distinction of the evening to bring us a partnership unique in its sensitivity: Haydee and Cragun dance together as one being, and the choreography acquires an added eloquence because of this. As Lensky Egon Madsen reveals once again that mysterious poetry of temperament that is so essentially his; as Olga, Lucia Montagnon is innocent, appealing.

The Stuttgart company are, of course, dedicated to the matter in hand: the later repertory, which will include MacMillan's *Requiem*, *Song of the Earth*, and a brand new work, as well as ballets by Stuttgart's new talent —William Forsythe and Patrice Montagnon—will show them at full stretch.

CLEMENT CRISP

Marcia Haydee and Reid Anderson

ENTERTAINMENT GUIDE

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Tuesday May 30 1978

Challenging the carmakers

ONE OF the most important economic issues now exercising European governments and the Brussels Commission is the long-term competitiveness of European manufacturing industry. In the face of intense competition from Japan, the U.S. and the developing countries, will those industries which have traditionally made the major contribution to the EEC's overall trade surplus in manufactured products continue to hold their place in world markets?

It may be that in certain sectors, such as steel, the EEC will have to reconcile itself to becoming a net importer. This will be bearable as long as the steel-using industries maintain or enlarge their share of world exports. In this context the future of the European motor industry is particularly crucial. At the present time the car manufacturers are in better shape than a good many other European industries; demand is generally buoyant and profits are reasonably satisfactory. But there are several factors which are causing anxiety for the longer term—competition from Japan, the level of manufacturing costs in Europe and the threat of over-capacity. Partly in response to pleas for a more concerted European approach to the industry's problems, the Brussels Commission has begun to take soundings among the leading companies.

Diverted

Last year Japan shipped 1.3m cars, about 45 per cent of its total car exports, to the U.S. and 660,000 cars, 22 per cent of the total, to Western Europe. Some European manufacturers are worried over the possibility that Japan's share of the U.S. market could be eroded by the new American-built small cars (many of which are priced below their Japanese counterparts) and that Japanese exports will be diverted to the only other volume market available, Western Europe. The Japanese are exercising restraint in their exports to the UK, but their share of the German and French markets is still very small. There is no doubt that the Japanese industry will be under pressure to keep its capacity fully utilised and that a really determined onslaught could greatly increase its share of the European market.

Even if the Japanese, despite the appreciation of the yen, manage to hold their position in the U.S., the spectacular gains of the last few years are unlikely to be repeated. If the world motor industry is to avoid the retreat into protectionism and market-sharing which has taken place in steel, the Japanese must resist the temptation to flood the European market. Some increase in their market share is likely and indeed welcome as long as they go on producing cars that people want to buy; but a sudden and disruptive increase in exports to Europe would be self-defeating. In the meantime Japan must continue to encourage imports of European cars; some progress is being made here, but even on the most optimistic estimates car imports into Japan are unlikely to rise much above 100,000 units for several years.

For the European manufacturers Japan is only part of the problem and not necessarily the most important part. The key to their fuure is the ability to keep manufacturing costs under control, to improve productivity and to increase the competitiveness of their products, especially in quality and technical sophistication. It is not at all clear how a European strategy for the motor industry, co-ordinated from Brussels, could contribute to these objectives. There may be scope for co-operation between companies in the manufacture of components, to achieve economies of scale, but the industry does not suffer from structural weaknesses such as might be said to exist, for example, in steel. There may be scope for a better flow of information about plans for new capacity, but this should not involve regulation of the market.

Management errors

Although the Japanese may have the edge over some European companies in productivity, there is no reason to suppose that car manufacture in Europe is not a viable industry or that it can only survive behind protective walls. How much of it will remain viable in practice depends on actions taken in individual companies. Some manufacturers may run into difficulties, as British Leyland, Citroen and more recently Volvo have done, but this has more to do with specific management errors than with a general European weakness. If there is a role for governments, it is to create the conditions in which companies are encouraged to modernise and make themselves more efficient, not to insulate them from internal or external competition.

Testing time in Italy

THE PACKAGE of tax and public utility tariff increases introduced by the Italian Government last Friday is a first and welcome step towards a reduction in the country's massive public sector deficit. But the Government has still a considerable way to go before it can satisfy the requirements of the International Monetary Fund, which will be necessary for the negotiation of a $1bn drawing, and thereafter for a renewal of the $1.4bn loan from the European community. The second slice of expenditure cuts or tax increases, which is expected to be announced shortly after consultations with other political parties and with the trade unions, will be a serious test of the Christian Democrats' readiness to recognise that there must be fundamental changes in its traditional and haphazard methods of running the Italian economy, and of its ability to secure a broad measure of support for the sacrifices which the changes will impose.

End of road

There are some encouraging signs. Political leaders on all sides are now more ready at least to pay lip service to the idea that the old ways will no longer do, and that Italy has, in some sense, come to the end of the road. More concretely, trade union leaders are openly taking a moderate line, arguing for lower wage claims and lower labour costs as well as for more labour mobility.

It is less clear that the rank and file, who would have to bear the immediate costs of a more realistic economic policy, have yet been fully persuaded of the lessons of the energy crisis and the recession. The restrictive policies imposed by the IMF and the Bank of Italy have restored Italy to surplus in its current account, and have sharply reduced the rate of inflation, but at the cost of near-zero growth. As the counterpart to its undertaking to curtail the public sector deficit, which until last Friday looked like running at L30,000bn. or even more in calendar 1978, the Government has been promising the aim of faster economic growth with a target rate of 4.5 per cent by the final quarter of this year. It is doubtful whether Italy can in practice attain such a growth rate in the next six months. But if the Government feels that it cannot push through the required tax increases and expenditure cuts without making conspicuous efforts to achieve much faster growth, then there must be a real danger of a renewed surge in prices and in costs. As it is, there are some indications that the recession may have bottomed out and that the inflation rate may already be starting upwards again.

Opinion swing

More serious, perhaps, is the danger that there will be a significant easing of the pressure on the Christian Democrats to introduce real reforms in the way in which they have governed Italy for the past 30 years. Most of this pressure has come from the steady increase in the electoral strength of the Communist Party. But the recent local elections showed a swing away from the Communists back to the Christian Democrats and, interestingly, towards the Socialists.

Whether this swing was due to a wave of sympathy for the traditional representatives of government in the aftermath of the kidnapping and murder of Aldo Moro, or whether it reflects the fact that the Communists have a singularly invidious role as the unofficial supporters of the Christian Democrat Government, is hard to disentangle. But it can only undermine the Christian Democrats' determination to face the task of reform, and there are already suggestions that the party may hope to confirm the latest trend in new general elections next year.

The West closes ranks at Nato meeting

By REGINALD DALE, European Editor

A N array of western leaders is in the U.S. this week for what could easily look like totally contradictory purposes. At NATO's Washington summit today and tomorrow, they will be giving their blessing to a major strengthening of the military forces of the alliance. At a rival gathering in New York—a special session of the United Nations General Assembly—they will be preaching the virtues of disarmament.

The contradiction is more apparent than real. Few western Governments would want to increase defence spending if they had the choice. Indeed, only a few days ago the NATO Defence Ministers issued a communique in Brussels expressing the hope that the UN session would help to lead to a reduction of force levels. But they also stressed that in the face of the continuing Warsaw Pact build-up, "negotiations to this end must be backed by an appropriate deterrent and defence posture." In other words, the West must approach disarmament negotiations from a position of strength.

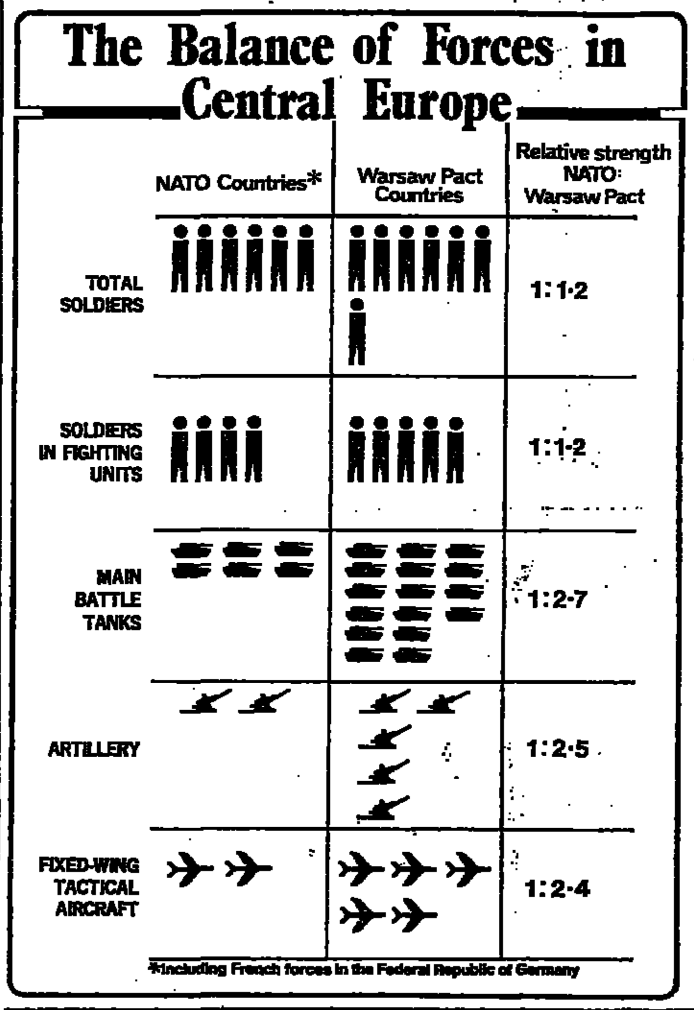
NATO Governments have long deplored the widening gap between their own forces and the ever-increasing power of the Warsaw Pact. They have now decided that something serious must be done about it. The Washington summit marks the culmination of a 12 month period in which the Allies have been conducting a major review of their weaknesses and identifying areas for improvement. The exercise, launched by President Carter at last May's London NATO summit, has involved the preparation of a new long term defence programme for the years up to 1990 and beyond, immediate short-term measures to put the Alliance on a surer combat footing and a major review of East-West relations to assess the intentions of President Brezhnev and his likely successors.

Clear signal to Russia

At the London summit, the Allies gave a clear signal that they were giving the Soviet Union a year to show restraint before formally endorsing the new Western build-up. But there has been no apparent change of Russian attitudes, nor any major breakthrough in East-West arms control negotiations. The efforts of the West to unblock the stalled Vienna talks aimed at reducing both sides' force levels in Central Europe (MBFR) have so far borne little fruit. Although Washington and Moscow have made progress in their Strategic Arms Limitation Talks, a SALT II agreement is now almost eight months overdue, and the Geneva negotiations for a comprehensive ban on nuclear tests have run into difficulties. The Belgrade conference to review the 1975 Helsinki Agreement ended dismally in early March, with Moscow refusing to make a single concession to the West on human rights—a stand which has since been reinforced by the trial of Yuri Orlov.

In Africa, the Soviet Union continues to demonstrate that it does not allow detente to inhibit it from enlarging its sphere of influence, and President Carter is still waiting for a positive response from Moscow to his decision to suspend production of the neutron bomb. True, President Brezhnev has offered a pact under which both sides would renounce neutron weapons, but that is hardly a major concession. In the first place, the U.S. has a substantial lead in neutron or enhanced radiation technology. In the second, the weapon would be of little military value to the Soviet Union as its main function would be to deter a massed tank attack. Warsaw Pact tanks in Central Europe out-number those of NATO by almost three to one.

There has been no slackening in the relentless build-up of the pact's forces in the last 12 months. As Mr. Harold Brown, the U.S. Defence Secretary, pointed out in Brussels earlier this month, the Soviet Union has been increasing its defence spending by 4-5 per cent annually in real terms for the past 16 to 18 years, and shows no sign of altering course. Even if the NATO countries meet their target of a 3 per cent annual increase in real expenditure in the five years to 1984, "we won't be quite catching up, or even quite keeping up," he says.



The sheer size of the Warsaw Pact forces remains their "most impressive characteristic," according to the latest Western intelligence assessments. Hitherto, the East's numerical superiority has been balanced by the West's more sophisticated weapons and equipment. But there is now growing concern about the way in which the East is succeeding in closing the quality gap, whether it be in conventional arms or tactical or strategic nuclear weapons. On land, at sea and in the air it is the same story.

These pessimistic western assessments mean that the NATO Heads of Government are bound to give the go-ahead for a strengthening and streamlining of Western defences in Washington this week, regardless of the outcome of their review of overall East-West relations. The study, in any case, is said not to have reached any very startling conclusions. But the Washington meeting is not intended simply to demonstrate new vigour on the military front. It will be an equally important aim to stress the political solidarity of NATO by underlining the readiness with which the other members have responded to President Carter's appeal for greater efforts.

There is no doubt that the response has been just about as good as Washington could have hoped for. It now looks as if all the countries participating in the long term programme will reach or come near to the target of a 3 per cent increase of defence spending next year, with the exception of Portugal and Turkey. (France and Greece, which are not fully integrated into the NATO military structure, are not participating. Nor is Iceland, which has no armed forces.) Whether the alliance can keep it up for the full five years is another matter, but Washington clearly regards the initial response as good.

Short term plans

There is also general satisfaction in the Alliance with the way in which immediate action is being taken under the short-term programme—often at little or no extra expense. The short-term programme, which is concentrating on anti-armour defence, reserve munitions, and what is known in military parlance as "readiness and reinforcement," is due to be completed by the end of this year. In the British case, for example, it has involved increasing the amount of equipment assigned to the alliance, deploying more anti-tank missiles, improving reinforcement and mobilisation plans, building up war stocks and stepping up operations by the Harrier vertical take-off aircraft.

But it is the long-term programme that will be the centrepiece of this week's meeting. It is a major hope that by planning for ten years and more on an Alliance-wide basis the duplication of national efforts can be avoided and money saved. The programme focuses on ten major areas, ranging from the modernisation of tactical nuclear weapons, through air and sea defences and electronic warfare, to the mobilisation of reserves and reinforcements. The U.S. has already made it clear that one of its main contributions will be a major stepping up of its plans to reinforce Western Europe in time of crisis. The aim is to be capable of tripling the number of American combat aircraft in Europe in one week and doubling ground forces in two weeks, bringing them to 400,000 men.

The NATO defence Ministers have already expressed approval of the way the programme is shaping up. At their meeting in Brussels earlier this month, they were also clearly gratified that progress is at last being made towards equipping the European theatre with a new $2bn airborne early warning system operated by modified Boeing 707s (AWACS) to work with the British Nimrod force. Provided Parliamentary approval can be obtained in the participating nations, most notably West Germany, the plans could be finalised within the next few months—ending three years of difficult negotiations.

Officials at Nato's Brussels headquarters say that the activity that has followed President Carter's initiative has at last given the alliance a new sense of purpose. But it is readily admitted that the state of the alliance is far from perfect. There has been so far little follow-up to Mr. Carter's commitment to open up a real two-way street across the Atlantic for arms procurement, and European efforts to promote joint ventures through the Independent European Programme Group (IEPG) have not yet led to any substantial new developments, despite more than two years of discussions.

Deep concern on SALT

Consultations between Washington and the European allies, particularly on SALT have on the whole worked well under the Carter Administration. The Europeans are now confident that the U.S. has resisted Soviet pressure to close their option of acquiring American Cruise missile technology in the SALT negotiations—one of their major preoccupations only a few months ago. But European Governments, and Bonn in particular, remain deeply concerned about prospects for the planned next round of negotiations (SALT III). It is at this point that Europe-based weapons systems could start to become bargaining chips, hitherto the negotiations have concentrated on strategic weapons based on the territory of the two super-powers.

There has also, of course, been considerable dismay in Europe, again mainly in Bonn, at the way in which President Carter handled his decision to suspend production of the neutron bomb—only days after U.S. officials had been giving the clear impression that production was about to go ahead. One of Mr. Carter's main aims at this week's meeting must be to demonstrate to his allies at first hand that he is still capable of decisive leadership.

But the darkest shadow looming over the summit will be that cast by Turkey. All the other allies, including the U.S., are now seriously concerned about the twin consequences of the continuing American arms embargo. Militarily, the embargo has led to a serious weakening of Turkish armed forces. Politically, it is driving Ankara to reassess its whole relationship with the alliance. The Turkish Government has already made it quite clear that it will not participate in the long-term defence programme while the embargo lasts; it has also torpedoed President Carter's plans for a special Washington declaration reaffirming faith in the fundamental principles of NATO. The other allies will be appealing to Mr. Bulent Ecevit, the Turkish Prime Minister, not to rock the boat too much over the next two days.

The other major concern is the response NATO should make to Soviet activity outside NATO's traditional area of operations, bounded in the south by the Tropic of Cancer, the Southern Mediterranean coastline, and the Turkish border.

Pressure is increasing from the military for the limits to be extended to take in areas like the South Atlantic, the Gulf, and the Indian Ocean. There is little chance of the heads of government yielding to these pressures. But although the Franco-Belgian intervention in Zaire was not in any sense a NATO operation and was predominantly for humanitarian purposes, it is also seen in many quarters as a signal to Moscow that the West will not put up with unfettered Cuban-backed "mischief-making" in Africa.


A Soviet tank on manoeuvres plunges into action.

MEN AND MATTERS

New York eye on English roses

Like the ruling class, its natural readership, the Tatler magazine has been through many vicissitudes in the post-war years. Yet it is currently staging a remarkable comeback, even if the style may jar for some of the crustier subscribers. In the Thirties, the last heyday of the Tatler, when life was one long round of hunt balls and coming-out parties, and Mr. Baldwin was minding the shop, the first fullpage picture always depicted some dewy English rose. The latest issue has on its cover the wife of an American merchant banker, of whom it is said inside: "She herself has a truly satisfactory life. Her husband is successful, they have a beautiful home in Chelsea, and a host of friends."

The editor is also American—a New Yorker named Leslie Field, and feminine despite the first name; Ms. Field reminds one of Faye Dunaway in the film *Network*, a comparison she will doubtless take as a compliment. She has now pushed what was a totally moribund publication up to 30,000 circulation, talks of 50,000 and will probably not stop there.

Trafalgar House are watching the Tatler's progress with fascination, since they have 25 per cent of it. So will be the Thomson Organisation, which spent nearly £1m on a massive revamp ten years ago, then ended by selling the title to a Notts publisher for a reputed £5,000. He did rather better, by packing it with county pictures. Then it was sold again, ran into more difficulties, and was rescued by its advertising director, John Elliott. He had been in the army with Nigel Broackes and persuaded him that the old monthly—with a history going back to the 18th century—deserved another fling.

Leslie Field was hired on the strength of the relentless energy she has displayed since migrating here from the U.S. magazine scene seven years ago. She is aiming the Tatler simultaneously at the international business community, the show-biz world, and the old squirearchy readership. The next issue will focus on horses, although the editor is much more at home in those London restaurants where celebrities can be spotted at the next table. One of her friends is Lord Weidenfeld.

She hopes to develop a strong readership among transatlantic executives and their wives, as well as the old True Blue brigade. "I'm certain you'll never under-estimate *snobisme*," was my parting shot to Ms. Field. "Be sure of that," she said. Doubtless her compatriots will relish not only the snappier contents, but also the pictures of our society weddings and newly-engaged young ladies called Carolyn, Lavinia, and Charlotte.

Almost a jetset

The shareholders of ASL Airflow, a Birmingham company, will be disappointed to read in the newly-released half-year report that no interim dividend is being declared. But chairman H. E. Newton Mason is doing his best to cheer them up. He writes: "As a small compensation our many patient shareholders, we are posting to each of them under separate cover one of ASL's latest and most exciting products: a "500" one-pint hand sprayer."

Golden horizon?

The ruling National Party in South Africa has decided to commemorate its 30th anniversary in power (last Friday was the day) in a manner appropriate to the country's prime source of wealth: in gold. So the bluff features of Prime Minister John Vorster are to be handed down to posterity in the form of a solid gold medallion.

"I just want to cancel St. Tropez and go to Skegness."

Clearly with an eye on the phenomenal success of the Krugerrand, which has contributed to a notable increase in South Africa's gold exports, the National Party commissioned the South African Gold Coin Exchange to design a similar article.

Produced to proof standards, containing only the purest gold, and selling at between R370 (£230) and R415 (£260), the medallion has, in the words of a Corn Exchange spokesman, "not been a rip-roaring success." Advertisements have promised that no more than 5,000 will be produced, but sales so far are only around 1,500.

No one is prepared to speculate openly on reasons for the flop: it is hardly considered diplomatic. But the latest advertisement, to try to revive the market, refers not only to the magnificence of the coin, and the importance of the anniversary, but also to the controversy over National Party policies: "With the significant role that the National Party and John Vorster will play in world events over the next decade, it is felt that the Vorster medallion is an extremely important commemorative issue." the copywriter declares gamely.

The National Party may well have to console itself with rather less income from the exercise than it might have hoped (it was given the gold by an unidentified donor). It will also ponder on the significance of why buyers seem to prefer to commemorate the distant past, in the shape of President Kruger, rather than the uncertain future, in the shape of John Vorster.

Matter of taste

British trawlermen are being urged to investigate unexploited waters off the west coast, where they will find the rare director fish, described as red, sweet and meaty. Perhaps they should turn their boats up the Thames, where any number of this succulent variety can be found not half a mile from the Pool of London. Since the fishermen are also urged to start catching small sharks, I can tell them that there are quite a few of those in the same locality.

Nearly a triumph

The weekend reunion of the British climbers who first conquered Everest calls to mind what my friend B. R. Ackenhouse told me about the Andorran expedition. It ran out of scaffolding at 20,000 ft.

Observer

FINANCIAL TIMES SURVEY

Tuesday May 30 1978

WORLD BANKING

PART TWO: PART ONE APPEARED LAST MONDAY MAY 22

Amid all the problems created by recession and inflation, both the developed and the developing nations have had to cope with fluctuating currencies and interest rates. These form the main theme of this section of the survey.

Sterling and the market forces

By Peter Riddell
Economics Correspondent

EXCHANGE RATE policy has proved to be the most intractable of all the Government's economic problems in the last two years — whether the pressures have been upwards or downwards. Since March 1976 sterling has fallen from $2.02 to just over $1.55 in late October of that year, before recovering steadily during 1977. A peak of $1.99 was touched early last January before the decline to around $1.81 now. There have been similar fluctuations in the trade-weighted index of sterling's value against a basket of 21 currencies.

These sharp movements have meant that the exchange rate and associated currency flows have become perhaps the most important single influences on monetary policy in the period. They have accounted for the larger part of the variations in the rate of price inflation. Exchange rate policy has also become extremly controversial while being one of the main battlegrounds for monetarists and non-monetarists.

During just over six months of 1976 sterling fell by nearly 23 per cent. against both the dollar and a basket of other currencies. The crisis could be traced to the large cumulative current account deficits of 1974 and 1975, the erosion of price and cost competitiveness in the period and to a loss of confidence in the British Government's ability and willingness to control a number of key financial aggregates.

The problems were aggravated by the initial mishandling by the U.K. authorities. This suggested to the market that the Government was at least tacitly conniving in, if not encouraging, the decline: a similar appearance of "benign neglect" by the U.S. Administration also compounded the difficulties of the dollar in the summer and autumn of 1977. The result of this erosion of confidence was that an initial package of measures in July 1976 failed to halt the decline and a turnround only occurred in the late autumn when the U.K. applied for a $3.9bn. standby credit from the International Monetary Fund.

Sterling then started to recover as expectations grew about the introduction of further large public spending cuts, and a safety-net arrangement for the official sterling balances. These events duly occurred in combination with a tight monetary squeeze, involving a sharp rise in short-term interest rates and the imposition of the so-called "corset" controls on the banks. The Government's battle for both internal and external monetary control was effectively won following the announcement of an agreement in principle with the Fund and the publication of ceilings for both borrowing and domestic credit expansion.

The rise in sterling gathered momentum during the last few weeks of 1976 with a spurt to a peak of $1.72½ in January, after which the Bank of England held the rate steady at around $1.71 to $1.72. This involved regular, and often very large purchases of foreign currency with an underlying inflow of nearly $7bn. in the first eight months of the year.

The pressures mounted during the summer as the dollar weakened: in late July the Government switched from maintaining a stable pound/dollar index to maintaining a stable trade-weighted index. This resulted in a rise of 3 cents to $1.75 by mid-September, but did little to deal with the underlying pressures. In retrospect, this appears as a missed opportunity when the pound could have been allowed to float freely.

Up till the late summer these inflows were largely absorbed by heavy sales of gilt-edged stock and did not undermine the 9 to 13 per cent. target for the growth of sterling M3, the broadly defined money supply, during 1977-78. But the continuing inflow from September onwards appeared to be having a greater impact on the growth of the money supply.

The result was that after an inflow of $3bn. in October, the Government was forced to let sterling float freely in order to retain control over the growth of the money supply. The immediate result was a sharp rise in the rate to $1.84 compared with under $1.75 at the beginning of October. The increase after the rate was "uncapped" was, however smaller than many commentators expected, partly because the move was immediately followed by temporarily unfavourable news on the pay front.

Sterling, however, appreciated during November and December in response both to the weakness of the dollar and increasing optimism about the prospects for the UK economy, culminating in the January peak of $1.99. The strength was fuelled by a more rapid than expected turnround in the UK's current account, partly as a result of the build-up of North Sea oil production. Instead of a deficit of £1.5bn. in 1977, as projected the previous December, there turned out to be a deficit of only £35m., down from £1.1bn. in 1976. Moreover there was a turnround between the two halves of last year from a deficit of £866m. to a surplus of £831m.

Overall there was a combined current and capital account surplus of £7.36bn. last year, compared with deficits of £1.46bn. and £3.63bn. in the previous two years. After taking account of borrowing during the year, Britain's official reserves rose by roughly five times to more than $20bn.

At this point, when the pound appeared to be heading to over $2.00, the debate about exchange rate policy intensified. There were urgent complaints from the CBI about the impact the rise in sterling was having on the competitive position of British goods. But the voice of business was divided and many in commerce and the City welcomed the appreciation.

A number of complicated technical points arise when discussing competitiveness. One problem is simply defining the best indicator to use, since comparisons can be based on measures of relative export prices, import prices, wholesale prices, unit labour costs and the profitability of exports. None of the indicators is wholly satisfactory on its own.

The best general conclusion in early 1978 was that all the relative price advantage secured in 1976 had been eroded, and indeed Britain was in a worse position than at any time since 1967. However, some of the cost and profit advantage had been retained, though it was in danger of being eroded by either a further appreciation of sterling or an acceleration in the rate of growth of earnings.

The response to this trend ranged from the views of those who believe that competitiveness is almost all that matters to those who argue that such indices are almost wholly irrelevant. At one extreme Mr. Wynne Godley and his colleagues of the New Cambridge School have condemned the rise in sterling as a threat to any hope of reversing the decline in Britain's manufactur-

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THE DOLLAR

World censure cools down

IN A SENSE, Mr. Anthony Solomon, Under-Secretary at the U.S. Treasury for monetary affairs, had a perfectly legitimate point to make in a speech earlier this month to a group of concerned American bankers. Why, he wondered rhetorically, was there all this fuss about the dollar? After all, taking the longer term view, the U.S. currency had not moved much over the last five years: the eight per cent trade-weighted depreciation that occurred between October last year and March this year merely offset the net appreciation that had taken place since 1973. Other broader measurements of the dollar's value showed that it had if anything risen a little over the period: and in any case the dollar had started firming up again since March.

But Mr. Solomon, who has endured, along with his superior, Treasury Secretary Michael Blumenthal, something of a baptism of fire at the helm of U.S. international monetary policy over the past 12 months, allowed himself a very brief quizzical digression in this vein. He then went on to explain to his audience in patient fashion the "fundamental" factors that ought to affect the value of the dollar but which, in the Administration's view, had too often been ignored by the foreign exchange markets.

He was able to expound with a greater sense of confidence than on the countless previous occasions when he had made similar remarks simply because there are signs, albeit tentative and fragile, that the Administration's policy messages are getting through at last. The dollar has risen by about 3 per cent since March, aided and abetted by a relatively low level of official intervention.

But though the Administration might like to claim that the improvement has come about because the markets have learned the errors of their ways, that would be only half the story. A critical element has been a change in the Administration's general and tactical approach to the dollar problem.

While the classic phrase "benign neglect," was never an entirely accurate description of the underlying U.S. policy towards its currency up until late last year, it did convey a partly justified sense that the U.S. was unaware of the international consequences of the decline in the dollar's value. The Administration has not gone so far as some of its critics, who tend to equate a strong currency with national virility, would like, but it has moved positively in the direction of active concern.

There have been several instances of this: the agreement with West Germany at the turn of the year, doubling the size of the Bundesbank swap and promising to use if necessary the resources of the full swap network to smooth out "disorderly" market conditions: subsequent active intervention in the markets to prove the point; and later the Treasury gold sales, the first of which took place this month. While essentially symbolic in value since the amount for sale is not great, the first auction attracted considerable foreign interest and has clearly helped, in Mr. Solomon's words "to strengthen the tone of the market." It remains true that many senior U.S. officials are deeply sceptical of the efficacy of massive intervention, which has failed so often for other countries in the past, but are prepared to engage in moderate and carefully timed doses of the same.

Helped

Simultaneously it is clear that the dollar has been enormously helped by the advent of Mr. G. William Miller as new chairman of the Federal Reserve Board. Dr. Arthur Burns, his predecessor, had become the symbol of monetary rectitude. The wailings and gnashings of European teeth that greeted his imminent departure from the Fed denoted a complete lack of understanding of the American political process, but reflected a concern that was heightened when President Carter nominated a distinctly unfamous corporate head to replace him.

But in less than two months Mr. Miller has achieved an influence in economic and monetary policy-making that even Dr. Burns might envy and which the former chairman has wholeheartedly endorsed. To foreign eyes the Miller success has been that he has launched himself headlong into the battle against inflation, pushing up interest rates, grappling with huge surges in the money supply, publicly advocating a smaller Federal budget deficit and urging the President to reduce in size and delay his tax stimulus package. To date Mr. Miller's advice has been followed by the Administration to the letter. He is, it might be said, now irreverently known around Washington as Dr. Arthur Miller.

Generally, the Administration's recognition of inflation as the principal economic problem has been welcomed overseas, though with a scepticism which is shared here that the "voluntary" approach which has been espoused may not be enough. The underlying rate of inflation in the economy is now admitted to be about 7 per cent. and has been rising (with consumer prices in the first four months going up at an annual rate of more than 9 per cent), while the trend in most of the rest of the industrialised world has been downward.

Most forecasts suggest that the rate of increase will abate later in the year, particularly as food prices come down, but it is quite likely that there will be some nasty interim figures which will heighten the sense of uncertainty about the effectiveness of current programmes.

On the growth side, the U.S. economy is in patently good condition, with the decline in the first quarter Gross National Product a clear aberration brought on by the coal strike and bad weather. Unemployment, for example, has continued to decline more rapidly than even the Administration anticipated. Given moderately tight fiscal and monetary policy, 4 to 4½ per cent real growth seems probable this year.

A narrowing of the growth differential between the U.S. and the rest of the industrialised world should over the mid-term have some impact on the magnitude of the American trade and current account deficits, though of course failure to get a rein on inflation would work the other way. The official view again is that European growth prospects do look better and would be improved still more if West Germany applies some extra stimulus in the course of the year (Japan, equally, is expected to do its best to meet its 7 per cent target, though attaining that figure may be another matter).

Even so, it is still anticipated that this year's deficits will be little, if anything, smaller than those of 1977. Indeed the trade account in the first four months of this year has actually deteriorated from last year's levels, with exports remaining extremely sluggish and imports costing more on the dollar's weakness. There are plans afoot to stimulate exports but even if successful they will take time to work.

Stuck

Finally, the principal cause of the deficits—the oil imports bill—remains an unresolved problem. Thirteen months after he proposed it, President Carter's energy programme remains stuc.. in a recalcitrant Congress: there are today glimmerings of h ? that all but the tax on crude oil will in due course be enacted. If so the Bill will not be the magic panacea once hoped for it, but it will have symbolic value and may be said to set the U.S. on the road to responsible consumption.

But Mr. Carter may yet have to have recourse to oil import quotas or higher tariffs on foreign crude, much as he is clearly loth to impose such sanctions. Just about the only consolation in the energy picture is that Alaskan crude is coming on stream (helping to create a glut in the West), combined with the little noticed fact that by some mysterious osmotic process the rate of increase in personal fuel consumption in the country has been declining. It could be the overdue dawn of self-awareness.

This has therefore been a rough year for the Carter Administration's policies towards the dollar and it is by no means clear that the final corner has been turned. But it can at least be said that when the conversation turns to "fundamentals" Messrs. Solomon and Blumenthal are not now so subject to the verbal foreign assaults that were their lot for much of last year. The temperature of the debate seems to have been lowered.

Jurek Martin
U.S. Editor

Sterling

CONTINUED FROM PREVIOUS PAGE

ing base. Mr. Bryan Gould, a Labour MP, has persistently argued that an overvalued exchange rate has been the most important single reason for the poor performance of the British economy this century, and that there should be a significant depreciation.

The opposite view has taken by international monetarists such as the London Business School. They argue that what matters for the exchange rate is the growth of the U.K. money supply relative to that in the rest of the industrialised world. They maintain that any official attempt to hold down the exchange rate so as to increase the competitiveness of exports is self-defeating and doomed because the U.K. price level is directly tied in with the world level.

The Business School has argued that the Government's attempt until late last October to hold down sterling boosted the growth of the money supply—with effects lasting until well into this year—and resulted in a higher rate of price inflation than need have occurred. The School has calculated a level for the trade-weighted index on the basis of relative money supply, the cumulative current account and the flow of oil-producer sterling balances. This suggests that the actual rate in the third quarter of last year was nearly a tenth below the forecast level.

In the event the worries of those concerned about competitiveness were eased, if not removed, when sterling started to decline during March and April. This partly reflected the recovery of the dollar but also a noticeable weakness against the stronger European currencies. The result was that by the end of April the trade-weighted index had dropped by nearly 8 per cent. from its February peak and was down to the levels of summer 1977.

This sharp decline can be explained by a deterioration in the current account in the first three months of the year of £550m. compared with the last quarter of 1977 and by the continuing and fairly rapid monetary growth. The initial response of the authorities was to allow the rate to decline—by more than 5 per cent. in March with only limited intervention, as shown by an underlying decline in the reserves of only $281m. in that month. In April, in contrast, the trade-weighted index fell by less than 1 per cent. but the underlying decline in the reserve was $2.1bn.

The authorities appear to have decided that the decline had gone far enough when the trade-weighted index was under 62 and the dollar rate was falling towards $1.80. The Bank of England's intervention has been quite open.

The present exchange rate policy is less straightforward than in the last two years. There does not appear to be a fixed intervention level but rather a target range which may be changed from time to time to maintain the competitive position. The policy was hinted at obliquely in the working assumptions of the Treasury's Budget forecast which said the exchange rate was taken as determined primarily by market forces with labour costs competitiveness improving during 1978 to levels roughly equal to those of 1977. The first part of this adjustment may have been achieved — somewhat earlier than the Treasury may have hoped—and the implication is that if earnings and unit labour costs in the U.K. rise at a more rapid rate than overseas, then sterling will decline.

Mainstream

The recent decline in sterling can be interpreted in a number of ways. The mainstream Treasury view is that by improving the competitive position of exports and import substitutes the fall in the pound should stimulate activity and output. The monetarists argue that the decline in sterling will result in a higher rate of inflation and thus reduce the rate of growth of activity.

While these theoretical arguments rage, perhaps the key message of the last two years is the power of markets. As Mr. Denis Healey remarked in the Commons only a few days before the Government was forced to stop holding down the pound last October, "one of the lessons of people who hold my particular job is that there are fairly strict limits within which it is possible to withstand market pressures."

Eyes on interest rates

BANKERS INVOLVED in Euromarket operations are not happy people these days. In the bond market the volume of new issues has shrunk in the first four months of this year compared with 1977 while in the credit market the high volume of new lending is not a source of joy.

Margins payable to banks over inter-bank rates on medium-term credits have continued to shrink since the beginning of the year—indeed it could be more accurate to say they have collapsed. The "⅝ per cent spread" club is becoming less exclusive by the day and threatens to make nonsense of all the theories of credit risk analysis vaunted in the past two or three years. Not only are margins shrinking; to add to bankers' pains, the tendency witnessed already towards the end of 1977 among countries to pay off debts before maturity dates and refinance at lower margins has turned into a trend.

In South-East Asia most of the new credits negotiated since the beginning of this year fall into the category of refinancing; Malaysia, to give but one example, is refinancing at a spread of ⅝ per cent money borrowed less than three years ago on a spread of 1⅜ per cent.

Maturities are also lengthening, and grace periods. Ten and 12-year money, said to be impossibly risky a year or so ago is now not uncommon.

These conditions have enabled some countries, in the words of the latest Amex Bank Review, to "enter a virtuous circle of growth and foreign borrowing" with foreign borrowing allowing a higher level of investment, which in turn raises the level of the GNP, increase domestic savings and opens up new export markets (the Review specifically quotes Taiwan and South Korea as belonging to this happy category). Such has not been the case elsewhere, however.

In some cases, say Brazil, the economic performance has been good but not so good as to suggest that spreads could fall from over 2 per cent to under 1 per cent in a matter of months. In others, Morocco, for example, little on the economic or financial front now seriously justifies a spread of ⅞ per cent on eight year money when 1½ per cent was being charged just over a year ago.

In the case of project finance, where the loan is repaid from the cash flow from the project, longer maturities in particular are welcome, especially when they correspond to the length of time the project will take to complete. But there are grounds for questioning the soundness of long maturities for balance of payments loans.

Balance of payments loans were anathema a few years ago but the weight of liquidity in the market has made their justification fashionable. Such conditions as exist in the market today cannot be expected to last and a tighter credit market could reduce both the gross and the net flow of credit to Less Developed Countries (LDCs). The question of how LDCs can expect to manage their rising debt when refinancing of existing debt is less easy is a question which will increasingly be at the forefront of many bankers' minds.

This is all the more likely as the market has changed considerably in recent years. A comparison between who borrows today and who borrowed in 1973-74 (the last time spreads fell and maturities lengthened so much) is instructive. According to the OECD's February issue of Financial Market Trends, during 1973-74 the five most important borrowers represented 50 per cent of all loans extended with France, Britain and Italy the three most important.

While such borrowers remain very important, the amount they borrow has declined in absolute terms. Mexico and Brazil have replaced them as key borrowers, accounting for more than a fifth of all medium-term credits both in 1976 and 1977.

The market also has a much wider catchment area, as demonstrated by the fall in the share of the five largest borrowers from over 50 per cent in 1973-74 to less than a third at present. Some argue that the more varied the banks' portfolio of loans, the less the fears of default.

Uneasiness

That said, the fact that many of the new borrowers are countries which have a far less stable record, both politically and economically, than most West European borrowers, when set alongside the much longer maturities (five years for over 50 per cent of all loans in 1975 and 1976, less than 15 per cent last year) does make for uneasiness. The borrowers' market which at present prevails has obliged even those banks which resisted strongly when spreads were in the process of falling through the 1 per cent floor to throw in the towel (although a few still refuse to do business on the lowest terms now available in the market). Competing for positions in tombstones and in various league tables has become the craze. The serious analysis of the credit-worthiness of borrowers appears in too many cases to have receded into the background.

The frenetic race meanwhile shows no sign of abating; according to Morgan Guaranty's April issue of World Financial Markets, $17¼bn worth of new loans were extended during the first quarter of this year, $6bn up on the equivalent period last year. Developing countries accounted for most of this increase (over $4bn), non-oil LDCs borrowing more than twice what they had in the first quarter of 1977.

Despite the pick up in loan demand witnessed in recent months in the U.S., many bankers feel this will not suffice to reduce the weight of liquidity. To which one can add that were the major U.S. banks to retire from the market (as the regional ones have already done) that would not necessarily make much difference. The West German, Japanese and more recently Middle Eastern banks would easily fill the gap.

What could halt the present softening of terms all round is a major default among the LDCs. Although not trumpeted that fear is shared by many banks: casting a glance around the world today one can understand why.

By contrast, international bond markets are having a quieter though not necessarily happier time. While the volume of Yankee bonds increased slightly compared with the same period last year, the volume of Eurobonds declined from $6.1bn to $5.3bn. A notable feature of the market was the very sharp fall in the volume of bonds denominated in U.S. dollars and the near doubling of the volume of bonds denominated in Deutsche Marks. This was an accurate reflection of the turmoil on the currency front and the continuing weakness of the dollar.

Overall, however, the bond market has had a record first quarter ($11.1bn of new bonds floated as against $9.6bn for the same period last year) as it had a record year in 1977 compared with 1976. The more stable dollar of recent weeks has resulted in a much larger volume of dollar-denominated bonds coming on to the market, though more in the form of Yankee bonds than in the form of Eurobonds. The launching of the first UK bond in New York after Britain had obtained a triple-A rating was noteworthy for its success. The greater activity of recent weeks has nevertheless had a cloud hanging over it in the form of higher

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EUROCURRENCY BANK CREDITS

($m.)

	1975	1976	1977	1978 Feb.¶	1978 Mar.§	1978 April§	Jan.-April 1978§	Jan.-April 1977
Industrial countries ...	7,231	11,254	17,255	2,393	1,261	1,616	6,538	5,564
Canada	113	885	3,292	—	—	1,000	1,000	300
Denmark	341	607	868	500	35	—	535	168
Finland	399	300	314	200	—	—	200	—
France	719	586	2,325	480	145	—	665	1,360
Greece	239	323	204	—	80	—	80	94
Ireland	338	433	440	—	—	285	285	40
Italy	120	355	1,024	226	160	67	473	30
Japan	448	370	112	—	—	—	10	37
Norway	159	472	182	—	600	—	850	38
South Africa	510	650	—	—	—	—	—	—
Spain	1,147	2,037	1,973	314	—	50	729	525
Sweden	302	440	1,446	—	—	100	110	1,065
UK	160	1,671	1,992	157	—	100	657	1,572
U.S.	764	677	826	250	70	—	400	291
Other*	1,471	1,447	2,257	266	171	14	544	43
Developing countries...	11,098	15,017	20,976	2,677	1,061	1,735	9,899	5,633
Non-OPEC countries.	8,199	11,019	13,494	2,021	168	1,617	6,646	3,233
Argentina	72	957	849	40	—	—	145	231
Brazil	2,152	3,232	2,814	405	45	—	1,260	633
Malaysia	425	207	212	—	—	—	540	164
Mexico	2,311	1,993	2,727	1,065	—	25	1,360	559
Peru	334	395	189	—	—	—	—	124
Philippines	363	970	698	66	23	432	760	262
South Korea	347	738	1,265	100	30	300	530	419
Taiwan	135	219	524	—	—	—	—	144
Other†	2,060	2,307	4,216	345	70	860	2,051	696
OPEC countries	2,899	3,999	7,481	656	893	118	3,253	2,401
Algeria	500	643	723	45	468	25	657	242
Indonesia	1,347	469	817	—	187	—	262	—
Iran	265	1,411	1,220	200	13	—	250	330
Venezuela	38	1,185	1,666	—	—	—	1,200	1,200
Other	749	290	3,055	411	225	93	884	629
Communist countries...	2,597	2,503	3,394	153	—	89	1,142	367
Internatnl. institutions	65	74	190	—	—	—	—	—
TOTAL	20,992	28,850	41,815	5,223	2,322	3,440	17,579	11,565

* Includes multi-national organisations. † Includes regional development organisations. ‡ Includes COMECON institutions. § Preliminary. ¶ Revised.

Source: Morgan Guaranty World Financial Markets April 1978.

NEW INTERNATIONAL BOND ISSUES

($m.)

	1975	1976	1977	1978 Feb.*	1978 Mar.†	1978 April†	Jan.-April 1978†	Jan.-April 1977
Eurobonds total	8,567	14,328	17,735	1,144	1,626	1,373	5,332	6,139
(by category of borrower)								
U.S. companies	268	435	1,130	64	62	175	368	370
Foreign companies	2,903	5,323	7,284	362	272	494	1,345	2,575
State enterprises	3,123	4,138	4,707	203	392	216	1,067	1,463
Governments	1,658	2,239	2,936	373	776	439	1,959	1,226
Intntnl. organisations	615	2,193	1,678	142	124	49	593	505
(by currency of denomination)								
U.S. dollar	3,738	9,125	11,628	518	835	455	2,233	4,098
German mark	2,278	2,713	4,109	467	593	807	2,442	1,354
Dutch guilder	719	502	361	66	46	34	146	149
Canadian dollar	558	1,407	674	—	—	—	—	371
European unit of account	371	99	28	—	19	31	63	—
Other	903	482	935	93	133	46	446	167
Foreign bonds outside the U.S., total	4,884	7,586	7,185	1,244	618	914	3,764	1,602
U.S. companies	61	28	40	—	—	—	65	24
Foreign companies	1,386	1,654	1,158	330	125	29	611	203
State enterprises	1,314	2,439	1,909	272	355	260	1,116	433
Governments	765	1,307	1,834	626	138	550	1,603	261
Intntnl. organisations	1,358	2,158	2,244	16	—	75	367	681
(by currency of denomination)								
German mark	1,089	1,288	2,096	63	—	107	500	583
Swiss franc	3,297	5,359	3,463	652	265	228	1,596	871
Dutch guilder	182	597	211	135	—	—	135	106
Japanese yen	67	226	1,271	374	337	546	1,464	42
Other	248	116	144	20	16	33	69	—
Foreign bonds in the U.S., total	6,462	10,604	7,286	10	1,050	392	2,035	1,917
(by category of borrower)								
Canadian entities	3,074	6,138	2,946	—	850	292	1,380	721
Intntnl. organisations	1,900	2,275	1,917	—	200	—	200	675
Other	1,488	2,191	2,423	10	—	100	455	521
Internatnl. bonds, total	19,913	32,518	32,206	2,398	3,294	2,679	11,131	9,658
of which issued by:								
Industrial countries	15,213	24,082	22,554	1,907	2,131	2,060	8,018	7,162
Non-OPEC LDC's	760	1,671	3,000	155	605	495	1,494	463
OPEC countries	67	139	813	178	234	—	459	172
Intntnl. organisations	3,873	6,626	5,839	158	324	124	1,160	1,861

* Revised. † Preliminary.

Source: Morgan Guaranty World Financial Markets April 1978.

Bankers' cautious line

IT HAS been a relatively quiet year for project financing. The worsening recession in the world shipping industry, the lack of major mining projects and the highly liquid position of the majority of companies in the oil and gas industry has meant that the level of activity has been lower than for some time.

However, the well-publicised problems of developing countries such as Peru and Zaire have focused attention once again on the very real risks involved in project financing and served to heighten the debate about what is, and what is not, an acceptable "project risk." Even though the concept of "project finance" has been around in one form or another for over 50 years, bankers still find it impossible to agree on what it means.

To the purists project financing in its truest sense means non-recourse financing. A bank lends money on a project and expects to be paid solely from the proceeds of that project. If it does not work, or blows up, the bank does not get paid. Understandably, most banks find this rather hard to swallow. *Very few are prepared to lend* on a total non-recourse basis except in specialised areas such as ship financing and U.S. oil production payments. Generally, they want extra guarantees and this is where the whole concept becomes rather fuzzy. If the British National Oil Corporation, for instance, raises production finance for an offshore oil field with the backing of a UK Government guarantee, is this really a project financing?

Most bankers would accept that the latter is very much a case of "finance for a project" rather than true "project finance." But would it be the same if the present Government of Zaire gives guarantees to back the exploitation of an open cast copper mine?

The term project finance tends to be bandied around rather loosely. It means different things to different people. UK banks, for example, tend *think of project finance very* much in terms of export credits. If a steel mill is to be built in Brazil, a merchant bank will arrange the complicated paper work with the UK Government's Export Credit Guarantee Department, which will guarantee the deal. The bank then rings up a few friends and puts together a syndicate. If the project then does not work or Brazil goes up in smoke, that is ECGD's concern, not the banks.

However, it is not always possible to get this sort of watertight guarantee. The size and cost of projects have been escalating rapidly and given the future financing needs of the world's energy and mining industries over the next decade it seems inevitable that increasing dependence will have to be put on non-recourse financing if the projects are going to get off the drawing board.

If this is the case then the banking community will need to give more thought to how it sees its future role in providing the large capital sums for projects. In the old days, finance for big projects used to be provided by private investors. Southern Africa was developed with huge amounts of equity capital from the UK, Belgium and Germany. The great mining finance houses, such as Anglo American and Union Miniere, sprang up to funnel equity money into new mines in Africa, while one of the original ideas of the founders of investment trusts was to *channel private investors'* funds into risky projects, such as building the Mexican railway system.

Nowadays, however, equity finance is far less prevalent. Developing countries no longer like having their natural resources owned by expatriate investors. In some cases investments have been expropriated, and in many cases taxation means that the rewards are insufficient to justify the risk. Consequently, in the absence of large amounts of new equity capital, the banks are now being asked to provide the development funds.

Admittedly, there are official agencies such as the World Bank, Eximbank and the Asian Development Bank, but even their resources are limited, and if it was left just to them, many projects would not come to fruition. Like it or not, the commercial banks have emerged as the most important suppliers of development capital for major projects and, if anything, their role is likely to increase rather than decrease.

This presents something of a dilemma for the banks. First and foremost they are deposit taking institutions. They are managing depositors' funds, not equity money. However, with the increasing complexity and greater involvement of the banks in project financing it is easy to lose sight of the distinction.

When BP raised its first massive financing for the Forties oil field in the North Sea, one big UK clearing bank was castigated for refusing to take part in the financing operation. It argued in its defence that although the UK Government has a large stake in BP and there were all sorts of extra guarantees it was being asked to risk depositors' money unnecessarily.

Much water has gone under the bridge since then and banks are prepared to be far more adventurous about what they will do with their depositors' money. The Piper and Claymore financings for the Thomson group, for example, were the closest thing to pure project finance yet seen in the North Sea. The banks that put up the funds accepted the technical risk (that the oil could not be pumped out); the reserve risk (that there was insufficient oil to service the loan); and, to a limited extent, the economic risk (that the price of oil would drop thus making the field uneconomic).

Justify

The banks justify their increased involvement in project financing by attempting to eliminate the risks involved. If these can be identified and effectively removed, depositors' money should not be at risk. That at least is the argument. In practice it is another matter. It is rare that the risks can be totally eliminated from a project. So, banks try as far as possible to contain the risk.

The risks fall into a number of categories. If it is a mine or natural resource project the bank concerned will probably commission an independent study to prove the presence of sufficient raw materials to justify the project. Bankers established a number of rules of thumb to guide them in their decision making. Often they will not lend more than half the value of the estimated reserves and they like the projec. to have a good and saleable title so that if the worst comes to the worst and the operator goes bust, the project can be sold.

Then there is the technology risk. If a project is using proved technology there is a far greater chance of it getting financed. Enough risks are involved in a typical project without trying to push back the frontiers of knowledge with a new production technique. Normally a bank will require a completion guarantee which means that the sponsor will be responsible for cost over-runs, delays and start-up problems.

Once a project has been constructed, the next stage is the marketing of the product and with volatile commodity prices there is often an even greater risk involved here. A banker wants to be convinced that the requisite quantity and quality of the product can be sold at the projected price. Normally, he requires that long term sales contracts are arranged with creditworthy entities. The bank wants to eliminate as many marketing risks as possible by eliminating the circumstances under which a buyer can refuse, or fail, to take delivery.

In Australia, for instance, the big mining companies are finding that due to the recession in the world steel industry, Japanese customers are trying to renegotiate their long term contracts and in some cases not taking the required amounts. *Obviously*, a *bank wants to* ensure that a similar occurrence does not jeopardise the financial viability of its project.

The other risk that has to be covered is the operating risk. Once the project is producing, the bank likes to be sure that the operator is committed to staying with the project. Ideally, this would mean that the company puts up a sizeable amount of the capital (say 20-35 per cent of the total). If possible, a bank will try to insure as many of the production risks as possible. As last year's spectacular blow-out on the Ekofisk *Bravo platform in the North* Sea demonstrated, accidents can happen and they are very expensive — even for a company the size of Phillips Petroleum. If the operator had been a UK newspaper company, for instance, the project might have been bankrupted.

Obviously, a project would not have been financed if the operator had been a newspaper company since it lacks the necessary expertise. For starters, a bank nomally insists that the operator is an experienced company. So along with the technical and marketing risks the bank can usually minimise their exposure.

However, there is one final risk that bedevils many attractive projects, and that is the political risk. A project's cash flow projections may look very good on paper but they are no use if the host country erupts into a civil war or the power supply to the project is cut off. This has been a problem in countries like Zaire where projects have required long distance electricity transmission lines. Like railway lines and pipelines, they are vulnerable arteries for any project and could be the Achilles heel.

In the poorer parts of the world projects may also be jeopardised because the country cannot afford the foreign exchange to import vital spare parts or will not allow the export proceeds to be repatriated. Banks often ask for blanket commitments such as a promise by the government in power not to take steps to impair the viability of their project. But governments change and while one political party will be quite happy to work with Citibank and Chase Manhattan etc., there is no certainty that their successors will be so inclined.

William Hall

Rates

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interest rates: the prospect of further rises and the uncertainty as to what level interest *rates will eventually rise hangs* over the market like a Damoclean sword.

The Deutsche-Mark sector which has been prominent since last autumn finally came to grief as the huge volume of new issues and the orgy of coupon cutting resulted in sharp falls in aftermarket prices. Whereas "exotic" names had already been affected by such aftermarket falls earlier in the year, the whole market was hit by late April and early May, the strengthening dollar simply making matters worse.

The market was closed for new issues on Friday May 12, and a decision on whether or not to reopen it will be taken on June 7. Many bankers would be surprised if matters had improved sufficiently to allow for a reopening so soon.

Sought

With great uncertainty on the interest rate front throughout the last few months, Floating Rate Notes (FRNS) have been much sought after by investors. This month witnessed an exceptionally long maturity floating rate note, 12 years, for National Westminster Bank. That should not, however, meet with much resistance as the borrower is of good quality and the complaints about lack of high quality paper in this sector have abounded in recent months.

Developments in the international bond markets will be dominated in the months to come by two factors which are intimately linked—the value of the dollar and the extent to which interest rates rise.

Francis Ghilès

Less debt than supposed

ANYONE GLANCING at the latest international banking statistics might be forgiven for questioning whether the famed less developed country debt problem exists at all. For these statistics show that during 1977 non-oil less developed countries (LDCs) were actually net *suppliers* of funds to the international banking system, and on a scale which rivalled the oil-exporting (OPEC) countries.

The figures are compiled by the Bank for International Settlements (BIS) in Basle from reports by commercial banks worldwide on the countries from which they receive their deposits and those where they have money lent out. They showed that the non-oil developing countries increased the amount they had borrowed from the international banking system by $11.3bn last year, exactly the same amount of new money as was raised by the OPEC countries. Depositors in the LDCs placed new money with the banks totalling $12.9bn, making them net depositors to the tune of $1.6bn: OPEC depositors placed new money with the banks totalling $13.4bn, making them net depositors to the tune of $2.1bn.

Moreover, the behaviour of the major commercial banks in the last 18 months hardly suggests that they are all that worried about the LDC debt problem. Essentially, the banks have been falling over themselves to make new loans to these countries at ever more generous terms—committing their depositors' money for ever longer periods and at ever smaller profit margins.

For over a year now banks have been complaining that the profit margins they can get for themselves on international loans even to the lower quality LDCs are hardly profit margins at all but just sufficient to cover their costs. But they are nonetheless committing new money for over ten years in some cases.

If the LDCs were in dreadful straits over the prospects for servicing and repaying their debt, one might have expected them to be building up borrowings against a rainy day, redepositing the money until they need it. Such a programme would mean sustaining a small running loss—they would get lower interest rates on their deposits than they would have to pay the banks—but would be worth the increased security.

There has certainly been a substantial element of provision for the future in the LDC's borrowing programmes of the last 18 months. However, another feature has also been refinancing—borrowing new money to pay off loans contracted earlier which are due for repayment sooner and are also more expensive.

Some of the most striking examples of this kind of activity have been in the Far East—in the case of a recent loan for the Philippines, the banks determined that they would include a provision saying that not more than half was to be used for refinancing to repay previous loans. However the effect of this provision was rather spoilt by the fact that the banks then doubled the size of the loan.

The Philippines is thus able to repay loans to the full size of the loan as it was originally scheduled.

Bonds

One further development last year needs to be noted when discussing the rosy aspect of the LDC debt position. This is the increasing recourse which LDCs have had to the international bond market.

By comparison with bank financings, the bond markets are relatively small sources of funds except to a specialised type of borrower. The size of individual issues for international institutions like the European Investment Bank and the World Bank or top quality governments and companies can equal many medium-term bank loans. But where Shell can raise several hundred million dollars at a throw, the less favoured borrower may be restricted to an issue of under one hundred. And that same less favoured borrower might have raised a billion dollars from commercial banks the week before.

The real significance of the increasing access of selected LDCs to the international bond markets is the cachet which it gives. Banks are in a position to get access to the necessary information and use it to analyse the details of credit risk—the bigger banks now have vast backroom departments studying every new report on countries to which they have lent or might lend.

Investors are not in this position, and for them to invest their savings in bonds issued by countries like Brazil, Argentina and Mexico—as the Germans in particular have done in the last year—is an act of faith which may be quoted as testimony of a changed perception of LDC credit risk. And this despite the fact that in some cases (notably issues by Brazil in Germany) investors may be tempted by tax advantages while in general the yields on LDC paper are attractively higher than on issues by more traditional bond market borrowers.

The picture of the LDCs which one gets from all this is of favoured borrowers who could afford to do without the money to the extent of depositing more than they borrow, gradually extending the maturity of their debt (and thus putting off, if not eliminating, the day of reckoning) and widening the range of markets they are able to tap.

This is of course by no means the whole.

The chances are that while one newspaper headline might read "OPEC borrows as much as LDCs," one has but to turn a page to find an account of some LDC which has already defaulted on its foreign debt. For while some LDCs have been model borrowers, others have been the very reverse.

The cause celebre so far has been Zaire, now again racked by uprising of the kind which has been one cause of the failure so far to settle its economic and financial problems but did not cause them.

The problem of Zaire, though difficult if not impossible of solution, are small in size from the point of view of the banks and other creditors by comparison with those of some other countries. Zaire's total foreign debt (including the short-term debt often omitted from published debt figures) is almost certainly below $3bn. Published figures on countries like Turkey and Peru show debts many times this level.

Neither of these two latter countries has had its problems solved. Though the indications are that Turkey's are on the way to solution, this is not yet the case with Peru. The one country where a foreign debt problem has already been sorted out is Indonesia. Other countries where restructuring operations are under way or where there have been or are big problems include Gabon, Egypt, Sudan, Sierra Leone, North Korea and Zambia.

It is no accident that *three* of the countries named above had copper as their main potential source of export earnings to pay off their loans. Of all countries which have relied on commodity-based foreign currency earnings to pay off their debts, those relying on copper have fared the worst.

Collapse

The collapse of the commodity prices upturned the accepted wisdom among bankers a few years ago that lending to those countries with "raw materials" meant lending to good credit risk. (This is quite apart from any problems connected with political, economic or financial mismanagement within any of those countries, or, in the case of Zaire and Zambia, external pressures such as the cutting of the Benguela railway and the Rhodesia problem which have reduced the countries' capacity to earn even from the exports they were able to make.)

What is expected to happen increasingly in the future is that those countries which were proposing to rely on the proceeds of earnings from non-commodity exports to the developed world are going to face problems. And this is the main area where recent revisions in economic forecasts are likely to create problems for lending banks.

There have been numerous examples already of action being taken by OECD countries to protect their own industries and therefore employment against the development of competitive industries in the developing world. One is Brazilian shoes in the U.S., another is Moroccan tomatoes in the EEC. So far the effect on the foreign currency earning capacity of the LDC's has been small compared with what it might be if the trend becomes general.

It is now generally accepted that world trade is going to grow less rapidly than had been anticipated a year or so ago. It is also generally accepted that the economies of the OECD countries will grow less fast than had been expected a year or so ago. It is argued from these premises that there will be fewer possibilities for the LDCs to build up their exports to the developed world and thus service their foreign currency debts.

At the same time it is argued by some that the current level of liquidity in the international banking system—which is what has made it possible for LDCs to borrow enough in the last year to last them through the next couple of years—is also temporary: that it results from the balance of payments deficit being run by the U.S. which has, after magnification by the Eurodollar market, caused money to be effectively created in the hands of central banks outside the U.S.

According to one monthly bank report: "the effect of continued heavy U.S. deficits should be offset in the second half of 1978 by tightening U.S. credit conditions, born of fears of accelerating inflation. Of course, should Europe and Japan not tighten credit conditions at the same time, this could prolong the period of overall international liquidity. The timing of the reduction in liquidity is difficult to forecast but is likely late this year or early next." (See Amex Bank Review, May.)

This same bank argues that such a tightening of international liquidity could coincide with a change in the perception of the risk of lending to LDCs it argues that the fact that the debate petered out last year following an improvement in the LDCs current account deficit from $33bn in 1975 to $23bn in 1976 and 1977, the increase in the size of the deficit this year to a projected $33bn again will mean that banks and the agencies which regulate them will suddenly get worried about these borrowers again: (Amex is after all in the delicate phraseology of the bank seeking business in the LDCs as hard as any) "become less willing lenders."

To summarise: In circumstances of rising current account deficit, any shut down in lending by the banks to countries which have already borrowed heavily can only lead to default.

As an aside, one should note that from the banks' point of view the fundamental issues of *how to finance the LDC deficit* are unfortunately shrouded in problems of law. Faced with a potential default situation, the immediate question for any bank which has funds out on *loan to the country concerned* is to persuade other banks in the same position to avoid formally calling a default. For the terms of international loans are so worded that a formal default on any one loan automatically means that all other loans to that same borrower immediately become due to be paid ,even if the nominal repayment date is several years hence.

In the case of Turkey, which *is currently under negotiation*, it is essential tht all the 200-odd banks which have funds outstanding as part of the $2.5bn commercial bank debt being rescheduled should agree to the rescheduling arrangements. This is because refusal by one could trigger off a universal default situation of a formal kind which would throw all the arrangements into confusion. The importance attached to this cross default principle can be seen from the fact that there have been cases in the past where, faced with one or two recalcitrant banks who threaten to take legal action to recover their money forthwith, the other banks in a lending consortium have actually bought out those banks' shares in order to avoid such action being taken.

The other big legal problem facing banks in default situations is the possibility that lead managing banks may be sued by other banks in the syndicate which originally put up the loan. Legal proceedings of this kind have been taken in the U.S. and the possibility means that a high priority for banks in the forefront of the international lending business is to cover themselves against such action, both in their original lending initiatives and in the course of trying to sort out a default situation.

These legal considerations often determine aspects of the banks' treatment of their LDC portfolios, particularly where rescheduling operations are or may be involved. And indeed they can also determine the stance which borrowers take. Only last week Peru responded to an unwelcome initiative by Chase Manhattan by threatening to declare a moratorium—thus threatening to put all its loans into default as well as to ensure that the banks which had money outstanding in Peru would have to set aside much larger reserves to cover their potential losses than would be the case if the current situation of potential default and rollover were continued.

Returning to the fundamental question of the seriousness of the LDC debt itself the banks seem to be faced in the coming years with the following situation:

1—Most LDCs to which the banks have loans outstanding have taken advantage of the favourable market conditions of the last eighteen months to borrow more than they actually need now and to improve the maturity structure of their debt by raising long-term money, not infrequently using this longer term money to prepay loans which would have matured sooner.

2—On the other hand, under present forecasts, the opportunities for LDC borrowers to repay

CONTINUED ON NEXT PAGE

EXTERNAL DEBT OF SELECTED COUNTRIES

	External debt* billions of dollars end-1976	External debt* % of exports of goods and services avg. 1974-76
3 Mexico	27.6	361
3 Chile	5.1	242
3 Peru	4.4	226
3 India	13.6	223
2 Brazil	28.6	216
3 Poland	11.5	193
2 Aragentina	9.0	185
3 East Germany	6.3	177
3 Hungary	3.9	173
3 Colombia	3.8	142
3 Turkey	5.7	128
3 Philippines	5.5	121
3 Indonesia	10.8	118
3 Korea	9.5	111
3 Finland	9.0	109
2 Algeria	6.7	88
3 Canada	45.1	86
3 Yugoslavia	8.0	84
3 USSR	16.0	80
3 Greece	3.9	78
1 New Zealand	2.8	77
3 Denmark	9.5	61
3 Thailand	2.2	55
2 Spain	10.2	53
3 Iran	6.1	46
3 Veneznela	7.0	45
3 Italy	20.0	44
1 Ireland	2.3	44
3 Taiwan	3.9	43
1 Portugal	2.3	38
3 France	26.2	34
3 Malaysia	1.9	29
1 Nigeria	1.0	11

	real growth of external debt in % 1973-76†
3 Poland	229
3 Venezuela	204
1 Portugal	188
1 New Zealand	133
1 Ireland	110
3 USSR	105
1 Mexico	103
3 East Germany	97
2 Spain	96
2 France	89
3 Taiwan	86
3 Hungary	86
3 Korea	73
3 Malaysia	73
3 Philippines	67
3 Finland	67
2 Brazil	62
1 Peru	61
1 Thailand	50
3 Turkey	33
3 Colombia	31
3 Denmark	29
3 Canada	26
2 Yugoslavia	25
3 Italy	21
3 Greece	18
2 Argentina	0
3 India	− 9
3 Chile	−14
1 Algeria	−36
3 Indonesia	−46
3 Iran	−54
3 Nigeria	−68

* Three different levels of debt comprehensiveness are used in calculating ratios; highest of three levels for a particular country is shown above in case where more than one is reported or estimated: 1) total long-term public and publicly-guaranteed private external debt, plus IMF drawings; 2) total long-term external debt, public and private, plus IMF drawings; 3) total long- and short-term external debt, except that the short-term external liabilities of commercial banks are included only to the extent that they exceed their external assets.

† External debt outstanding deflated by export prices.

Source: Morgan Guaranty, World Financial Markets June 1977.

Dictated by politics

INTERNATIONAL BANKS are currently reassessing their exposure in South Africa, as they *face vocal political pressure* to reduce their commitment. Several major banks, both in Europe and the U.S., have declared a halt to further loans to the South African Government and its institutions, citing both financial and political reasons. While other bankers insist that political reasons alone will not decide whether they continue to provide credit, the large traditional flows of foreign capital into the region have dwindled to a trickle over the past two years. Only in recent months has there been an appreciable, if fractional, improvement in the terms for potential South African borrowers.

The international climate has certainly had a dampening effect on the domestic banking scene in South Africa—although the banks themselves maintain that there is no restriction on their own lines of credit. But the primary concerns have been more obviously parochial; how to weather the prolonged economic recession, the aftermath of the collapse of the South African property market and the Government's highly *restrictive monetary and fiscal* policies.

The past year has been one of painful re-organisation and rationalisation in the wake of a secondary banking crisis caused largely by over exposure in the property market. The question remains whether that process is now complete, and the survivors able to look forward to renewed growth and better earnings in an improving economic climate.

The first sign of some relaxation of the Government's tight money policy came on May 18 last from Dr. T. W. de Jongh, Governor of the South African Reserve Bank, when he announced that bank credit ceilings were to be raised by 4 per cent. Although quantitatively the move is still very cautious, providing between R250m. (£156m.) and R300m. (£187m.) in additional credit facilities, it is a notable departure from the existing restriction of a 0.5 per cent. limit on monthly credit expansion which has been in force since February 1976. During the whole of last year the supply of money and near-money in the economy increased by only 7 per cent. compared with 9 per cent. in 1976, and an inflation rate of around 11 per cent.

The squeeze resulting from the Government's tight money policy has been aggravated by the continuing trend of bank depositors away from cheque accounts to longer term savings accounts. Over the past five years the proportion of deposits held by the commercial banks in cheque accounts has declined from as much as 50 per cent. to around 30 per cent.

The trend continues at Nedbank, the largest wholly South African bank, for example, the proportion fell from 23.2 per cent. to 19 per cent. between 1976 and 1977. Thus the banks have had to pay more for their deposits and therefore use their money more profitably, leading to more intensive use of the money market. But the trend has it compensations: "It is better money management all round," says Mr. Rob Abrahamsen, Nedbank's executive director.

The depressed economy has meant the banks having to continue to make provision for business failures, particularly in the badly hit construction sector. In such a climate, not *surprisingly, the smaller banks* have been most severely affected. Shaken by the collapse in the property market, smaller banks have progressively been taken under the umbrella of the major banking groups—Barclays National, Standard, Nedbank, Volkskas, and the Sanlam empire represented by the Bank Holding Corporation of South Africa (Bankorp.).

The year has seen continuing rationalisation and acquisitions among secondary banks, including Concorde, Santam, Bank of the Orange Free State, and most recently, UDC Bank. But the *major reorganisation of the year* was that of Trust Bank, once considered one of the big five, which was swallowed by the smaller Bankorp in February 1977.

Trust Bank was the largest casualty of the property market collapse, which also resulted in two smaller institutions, Rand Bank and Rondalia Bank, being put into curatorship (judicial management). The takeover by Bankorp effectively meant that Trust Bank was being bailed out by Sanlam, the insurance giant and flagship of Afrikaner business in South Africa.

Details of the reorganisation, finally announced in October, gave some indication of the plight of the bank, with Bankorp offering one of its shares for six of Trust, instead of the original one-for-three offer made in February. The new management promised a more conservative policy of holding more substantial reserves and gradually running down Trust's investment portfolio.

By September the Reserve Bank was able to announce that the R55m "lifeboat" support fund set up with the Big Five banks to support the smaller banks in the face of a run on deposits could be disbanded, after the threatened institutions had stepped up their ratios of medium- and long-term deposits to short-term.

The reorganisation of the sector has continued, however, with Stanbic, the holding *company of Standard Bank* announcing its latest move this month with the takeover of UDC Bank from UDC Holdings (UDCH). The deal provides for UDCH to sell its bank for 3.5m Stanbic shares, worth some R12.25m. UDCH has been forced into the sale because of its exposure in Ryan Nigal, the former high-flying money market operation, against whose doubtful debts UDCH has had to make provisions of R10.7m.

The acquisition of UDC has meant a small further step for Standard on its promised path to reduce its foreign holding to 50 per cent. The share issue will reduce the current shareholding of Standard Chartered from its present 67.4 per cent by a further 4 per cent. Last year Stanbic offered 7.7m shares in a R20m rights issue, of which Standard Chartered took up only 3.8m., thus reducing its holding.

Canvassed

The way in which Standard and Barclays, South Africa's biggest bank, will run down their foreign holdings remains a matter of considerable speculation. *In terms of a 1976 amendment* to the South African Banks Act, they had to lodge a plan with the Registrar by April last year for reducing their foreign holding to 50 per cent by July 1986.

Mr. Anthony Tuke, the chairman of Barclays, confirmed at the last London AGM that it was doing just that. Very few South African institutions could afford a straight purchase. The *other ways of carrying out the* operation are by rights issues or by local acquisitions, and Standard appears to be using a combination of the two. In the case of Barclays National, Barclays International at present owns 64 per cent. The 14 per cent differential is worth some R27m. Although the Anglo American mining house is already a major (18 per cent) shareholder in Barclays National, a straight sale seems unlikely.

Mr. Bob Aldworth, the managing director, said recently that a rights issue "could fit in beautifully with my plans." He would anyway go to the market for an amount in line with capital requirements for the next few years—although probably not before 1980. As for the possibility of local acquisitions, or even a merger with another South African bank, Mr. Aldworth said: "It's an interesting thought. But we have discussed nothing with any South *African bank*."

Banking sources believe that, although its attitude is understandable, the Government is being over-hasty in its desire to reduce foreign ownership in the *banking sector. They must be* thankful, however, that they are not in neighbouring Mozambique, where the Government announced in January that it had nationalised or closed all but one bank. That, ironically, was the one with a South African interest, Banco Standard Totta de Mocambique, in which Stanbic and Anglo American each hold 5 per cent, Standard Chartered 30 per cent and *Banco Totto Acores 40 per cent.*

Quentin Peel

DEVELOPING COUNTRIES

CONTINUED FROM PREVIOUS PAGE

their loans out of foreign exchange earnings derived from exports to OECD are more problematical than was thought some time ago, as a result of a fall in the expected growth rate of OECD countries and of world trade.

3—The extent to which LDC portfolios may prove an embarrassment to the banks in the future will therefore be determined by the extent to which further refinancing is available in a couple of years time and thence forward.

The indications are that the bulk of the refinancing would have to come from the banks. Major developments have occurred at governmental level and among the international financial institutions but they are mainly directed at the poorest countries.

At the last UNCTAD meeting a couple of months ago the developed countries moved a step forward further towards an initiative on the debt problem of the poorest of the LDCs. This took the form of a resolution stating that the developed countries would "seek to adopt" measures adjusting the terms of aid given in the past to bring it into line with the current practice whereby most aid takes the form of gifts rather than loans (i.e., in the case of some countries at least, waive repayment of the principle and interest on past aid loans). And moreover such a move was seen as a potential addition to the aid flow to these countries, rather than merely a replacement for other forms of aid.

However, since the poorest LDCs have not been significant borrowers from the international banks, this initiative—if it materialises in action—would not alleviate the debt problem of the countries they have lent money to.

There are other potential sources of funds for these countries, notably he Witteveen facility and emergency loans given for political reasons such as are currently under discussion for Zaire. And indeed the political factor should not be overlooked. It is difficult to believe that it is a coincidence that the US banks have most money at risk in countries which *have close political ties to the* US, notably Brazil and Mexico. But basically, unless major new initiatives are taken by governments, the refinancing burden will fall on the shoulders of the banks.

The question therefore is the extent to which the need will be met. That it will be heavy there is no doubt—one estimate, *which claims to be conservative,* suggests that by 1980 for the six major LDC borrowers (Argentina, Brazil, Korea, Mexico, Peru, Philippines) of every two dollars borrowed from banks, one would be to service old debt.

That the US banks at least are so committed to this market as to make it essential for them that the debt be rescheduled if necessary there is also no doubt. The most extreme example so far is Citicorp, which last year earned more in Brazil alone than it did in the US (its foreign earnings as a whole were more than four *times its US domestic earnings).* But all the large US banks would suffer substantially if a major crisis were not to be sorted out.

In these circumstances probably the most welcome development of the last year has been the increasing commitment of German, Japanese and Swiss banks to the Euromarket and particularly to lending to the LDCs. It is significant that two Swiss banks are included in the consortium of eight which are spearheading the reorganisation of Turkey's debt (well over half of the convertible lira accounts—the debt being rescheduled—is thought to be denominated in Swiss francs). The increased involvement of the surplus countries in this business is crucial: what it means is that the full burden of financing any LDC problem which emerges will not rest merely on the *shoulders of the deficit ridden* US.

Mary Campbell
Euromarkets Editor

Challenge to establishment

WHILE LONDON remains the unquestioned leader in the Eurocurrency markets, its overwhelming pre-eminence has been increasingly qualified as competing financial areas have built up their share of this business in the handling and investment of international funds.

Not the least of these rivals have been the various so-called offshore centres in regions as various as the Caribbean, the Middle East and south-east Asia which offer the attractions of tax-saving and of lower operating costs. Some of these, such as the Cayman Islands, have been of such comparatively recent growth that as late as the beginning of the 1970s they were virtually unknown on the banking map and not instantly recognisable by everybody on the geographical one either.

In an article in the January 1978 issue of The Banker, Mr. David Ashby, senior economist of Bankers Trust Company in London, estimated that between 1973 and 1977 London's share of the total Eurocurrency market fell from 40 per cent to 36 per cent. In absolute terms, of course, that development represented a considerable rise, since the gross size of the market worldwide went up during the four-year period from $317bn to $614bn.

Non-European participation in the market, however, increased much more sharply, the joint share of the Bahamas and the Cayman Islands alone, for instance, rising from 8.3 per cent to 13.3 per cent, while that of Singapore—a key element in the new Asiadollar sector — moved up from 2 per cent to 8.1 per cent.

In a market whose pattern never stays still, the latest thought being canvassed is one which, if translated into reality, could add another important chapter to the story in which the big U.S. and other international banks first set up Eurocurrency operations in London and afterwards also started booking large business through offshore centres in the Caribbean and elsewhere. The new idea is that a new low-tax or tax-free "offshore" banking centres might be set up in New York itself or in other American cities, so promoting the repatriation of much international business now handled by U.S. banks and others through centres abroad.

Such a development would require tight controls to prevent the tax benefits seeping out into the surrounding domestic banking system for which they were not intended, and the move is not thought, even by its most optimistic proponents, likely to become reality in less than two-to-three years' time at the least.

None the less, the ventilating of the concept as a real possibility should be enough to make rival centres examine defensively the adequacy of their own appeal.

Just how quickly the position in the fast-fluctuating and ever-growing Eurocurrency market can change is shown by the rapid expansion of the Caribbean centres, the very areas whose position would be most jeopardised by a development of "offshore" centres "on-shore" in the U.S.

The rapid expansion of the Bahamas and the Cayman Islands over the past few years as the main Caribbean offshore centres is essentially due to the policy of the major U.S. banks in expanding their international operations as a buttress to somewhat stagnant profits on their domestic business.

These banks have now for some years booked a great deal of international business through so-called shadow branches in places like the Bahamas and the Caymans which are in the same time zone and which offer attractive tax advantages. The system allows the U.S. banks to use an address which is regarded by the American authorities as an overseas branch but does not require the full panoply of the normal kind of overseas operation.

As a result of these arrangements the American banks which, as Mr. Ashby points out, had only $22bn of dollar assets in the Caribbean at the end of 1973, when their corresponding London holdings were $40bn, had by September 1977 multiplied the former total some three times to $67bn, a figure surpassing the $64bn they then held in London.

Growth of business in the offshore centres, as elsewhere, tended, however, to be somewhat restricted last year, as the profitability of international business was considerably eroded. A squeeze on the spreads obtainable between borrowing and lending rates became sharply apparent as a result of tougher competition and of the world recession which made for a borrowers' market.

A study by Salomon Brothers, the prominent New York investment bankers, has noted that the top ten U.S. banks increased the earnings on their international business by only 8 per cent in 1977, when their business at home brought a rise of some 11 per cent in earnings.

This was in contrast to the average showing over the years 1972-77, when the U.S. big ten's international earnings showed an average annual growth of 22.8 per cent, as against a meagre 4.4 per cent on the domestic side. The pattern had already been changing to the disadvantage of profitability on the international side in 1976, when average domestic earnings rose 5 per cent and those abroad by only 1.7 per cent.

The expansion in the number of branches and offices which the big international banks maintain in offshore centres has also tended to slow down with the recent duller economic climate, though increases are still being seen, particularly in fast-expanding situations such as Bahrain and Singapore.

Significant pointers to the growth in the offshore areas and the relative shifts in importance among them can be seen from statistics maintained by the Bank of England, in sterling terms, of British banks' dealings, both as lenders and borrowers, with the various centres. Given London's leading place in the worldwide Eurocurrency business, its transactions must certainly be an important gauge of the evolving role of the various offshore centres.

In terms of lending to UK banks the Bahamas—acknowledged as the second largest Eurocurrency market after London—maintained its position as the biggest source of offshore deposits to UK banks, although UK liabilities to it at the end of 1977 were, at just under £3bn, some £1bn lower than a year previously. Some of this fall was balanced by a smaller rise in business from the nearby Cayman Islands and a slight increase in that with Bermuda. The total for Panama declined somewhat to £947m.

Hong Kong held its position as the next largest offshore lender after the Bahamas with a slightly reduced total of some £1.8bn funds placed with UK banks, while the trend for Singapore to grow relatively was reflected in an increase of £45m to £860m. The large increase from only £31m in 1971 highlights the rapid expansion of Singapore in the Asia dollar business which it has made such efforts to nurture.

The Lebanon, where financial business is reviving after the troubles, raised its importance as a source of funds for London with an increase of £86m to £948m at the end of 1977.

On the other side of the account, the Bahamas also leads as the major taker of funds from the London market, though again the total in December, 1977, at £5.9bn, was less than the £6.9bn or so a year earlier.

The Cayman Islands also showed a fall of over £¼bn to £1.6bn as a borrower of funds from the UK. Singapore's role in the Asiandollar market was represented by it with second place among offshore centres as a taker of funds from the London market, though with a slightly smaller total of £3.1bn than 12 months before. Hong Kong came third, with an increased figure of £2.1bn, against £1.8bn.

The Netherlands Antilles and Bermuda were centres to record some increase, against the generally lower 1977 tend, as borrowers of funds from London.

Naturally, the new offshore centres pay close attention to the tax and other regimes they operate to ensure these are reasonably appropriate for the Eurocurrency-type business.

In Singapore, generally regarded as the centre of the recently-expanded Asiandollar market—which is also active in Hong Kong—certain concessions have recently been made to assist the growth of the business. The stamp duty on negotiable instruments has been adjusted from the previous general basis of 0.5 per cent to include a maximum stamp fee of S$500, while the concessionary 10 per cent tax rate on the offshore earnings of Asian-dollar dealers has been extended to cover the results of certain additional services provided by such operators.

In Hong Kong, often considered to be complementary to Singapore as dealing mainly in non-bank loans, though inevitably a competitor to some degree, the trend has been, however, towards some limited stiffening in the 1978 Budget of the previously very liberal tax regime.

Margaret Reid

SOUTH KOREA

Ventures to aid export drive

IN MARCH the Korea Exchange Bank (KEB) and Banque Bruxelles Lambert set up the Korea European Associated Finance Company in Brussels. Then, this month, a consortium of Korean and Arab banks set up a joint-venture merchant bank in Cairo, the latest in a long line of Korean initiatives to "internationalise" Korean banking. Next on the agenda is a Panama venture with Latin American interests. In short, Korea is expanding its financial presence to keep pace in growth markets with Korean exporters and construction companies.

The push follows soon after the rapid creation of merchant bank ventures with foreign partners in the Korean capital Seoul. The first such undertaking, Korea Merchant Banking Corporation (KMBC) was set up in September, 1976 (with Lazard Brothers and Co. as a 50-50 partner for an assortment of Korean banks and industrial companies). Some of Lazard's holding has since been taken over by Barclays, and others may want to join the bank now that KMBC's gamble has paid off handsomely.

Meanwhile, the Korea Kuwait Banking Corporation was set up with Kuwait interests in 1977, and last March Mr. Ghait Pharaon's massive Triad Holding Corporation of Saudi Arabia has put up half the funds for the Asian Merchant Bank. Set up as a joint-venture finance company with a group of Korean businesses and banks led by the Daehan Group (34 per cent), the new merchant bank is seen as a major attempt to funnel petrodollars into Korean industry from the Middle East.

The "internationalisation" of Korean banking has nevertheless run into some problems. The domestic banking system remains very backward, not least because of strict government control of interest rates which has permitted the growth of a massive "curb" market. Government regulation (via the Bank of Korea and Ministry of Finance) has also kept a lid on the activities of foreign bank branches in Seoul, especially since late 1977 when Korea's international borrowing position improved so drastically that the Administration was forced to clamp down on foreign currency lending by bank branches inside Korea.

Foreign banks have made clear their displeasure at the new controls on dollar as well as local currency ($1 equals local currency won 484) lending, but the fact remains that the foreign stake in Korean banking has risen rapidly since the boom began in 1976. Total outstanding lending by foreign banks grew especially quickly in the second half of last year; it stood at $540m or 5 per cent of total lending in Korea at the end of June 1977. By end-August the foreign share had risen to 5.4 per cent, then to 6.3 per cent in October and 6.6 per cent at the end of last November.

Alarmed at the possible consequences on smaller Korean lending institutions, as well as the adverse effects of a too rapid foreign currency inflow, Seoul cut back "swap" limits (for converting hard currency into won for on-lending purchases) and put a ceiling of $200m on the branches' hard currency lending in 1978.

The foreign banks in Seoul disagree on how best to secure concessions from the Korean Government, largely because they are divided between the bigger (usually older) branches and the smaller new entrants.

Seoul, for its part has eagerly handed out banking permits to foreign institutions in order to (a) modernise the domestic banking system and (b) open up an important source of corporate dollar financing. At the outset foreign banks were able to dictate lending rates but this is no longer so.

Most immediately, Seoul wants to make it possible for Korean companies to borrow foreign currency from the banks without a guarantee — a phenomenon unheard of one year ago but now quite common. To entice foreign banks to lend unmortgaged, the Ministry of Finance permits them to overshoot their individual lending ceilings by as much as 50 per cent on condition that the increment of loans does not carry any guarantee to protect the bank. So if all foreign branches were to co-operate and lend to the limit, the combined ceiling on foreign currency loans in 1978 could be $300m, not $200m. On present form most bankers reckon the final sum will be closer to the higher rather than lower level.

"We have had to reduce our local currency facilities too," says one American banker, "and we don't like it." The effective cut in swap amounts has been 20 per cent from peak levels, despite the rapid growth in corporate demand for local cash.

The threat posed by the expanding "curb" market is by no means faced only by foreign banks. The big Korean commercial banks are not happy either. Government controls keep a tight rein on interest rates (typically at 16 per cent per annum on most corporate lending) while loan sharks outside the banking system charge anything from 3 per cent to 4 per cent a month (and at very minimum 25 per cent a year).

The need for interest rate adjustments is all the more pressing because they have got out of phase in the past year. After all, publicly listed companies are paying typical dividends of over 20 per cent, and housing bank debentures pay 24 per cent. So the 16 to 17 per cent rates which are prevalent in the banking sectors are just too low.

Despite repeated rumours of deregulation in this field, however, the most recent evidence points to a lower level of interest rates — albeit on foreign currency loans. In late April the Ministry of Finance pared the rate charged on foreign exchange loans by up to ¼ per cent. As a result, long-term loans, for over seven years for instance, now carry 1.25 per cent over the London interbank offering rate (Libor) instead of 1.75 per cent. For maturities of between six months and three years the cost is five-eighths over Libor instead of the 1 per cent charge previously.

Underscores

The move underscores once again Seoul's committment to make easy cash available to local businesses for financing imports (notably of capital equipment) as well as promoting foreign curerncy borrowing onshore rather than offshore. The paradox, however, is that Korea itself is now managing to borrow much more cheaply offshore than ever before — hence the ability to cut rates for onshore lending.

In particular the Korea Development Bank and Korea Exchange Bank recently arranged with the top American banks to borrow $300m, in the Euromarket at a fraction of the 2 per cent over Libor which was common only two years ago. The new rate of five-eighths (on a 10-year borrowing instead of the maximum seven years previously) was quickly taken up in the market and appears to have let Korea dump its image (and penalty) as a risky borrower because of its security position.

Douglas Ramsey

Turning attention to home

IN 1960 only eight U.S. banks had overseas branches and their foreign assets totalled $3.5bn. By the middle of 1976 there were over 100 U.S. banks with branches abroad and their foreign-held assets had mushroomed to $181bn.

The figures are drawn from a Congressional study of the banking industry prepared last year, but the story they tell is echoed elsewhere. Thus a recent Salomon Brothers' analysis of the U.S.-banking industry reported that during the first half of the current decade the international earnings of U.S. banks grew at an astonishing 37.3 per cent compound annually. The result is that by the end of 1977 the top ten largest U.S. banks earned precisely half their income from foreign operations, and Citibank, the second largest U.S. commercial bank and the institution generally credited with leading the charge overseas, drew a staggering 82 per cent of its net income from overseas.

The massive build-up of overseas lending in the past five years in particular, and specifically after the 1973 oil crisis, has been fuelled by the needs of many countries to borrow in order to cover their oil-induced payments deficits. Since the oil producers were placing their deposits with commercial banks to a large extent, it was the banks which did the lending to the deficit countries.

The banks have been able to argue that recycling was thrust on them and by undertaking the task they have done the world economy a service. As the figures indicate, it has been a highly profitable service to perform but last year there emerged clear signs that U.S. banking has reached something of a turning point.

It would perhaps be going too far to say that the big banks have become disenchanted with foreign lending but there is no doubt that a growing awareness has emerged that whatever the "diminishing" attractions of this foreign business, the fact remains that the big banks had better get back to tilling their own backyards more carefully if they are not to lose out to mounting competitive pressures.

There are many reasons why the leading U.S. money centre banks like Citicorp, Chase Manhattan and the big Chicago banks—are beginning to focus more of their attention on their domestic markets. One is that there has been mounting concern from regulators and investors about the risks of some of this foreign lending. In addition, however, in 1976, when international earnings rose a meagre 1.8 per cent for the top 30 banks according to Salomon Brothers, and again last year when they rose by 8 per cent, there are signs that foreign lending is less profitable than it was, reflecting narrowing interest rate margins and rising international loan write-offs.

Many banks, moreover—and one could imagine Citibank in particular feeling this way—are beginning to wonder just how dependent they want to be on foreign earnings.

But at least as important as these factors has been the growing recognition among the big banks that they are in serious danger of losing out domestically unless they come up with some new responses to mounting domestic competitive pressures.

The most obvious indication of this danger has been the striking performance, particularly last year, of the dozens of regional banks in cities like San Francisco, Dallas or Seattle. There are over 14,000 banks in the U.S., most of them diminutive, but the top 150 all have assets comfortably in excess of $1.5bn.

Last year an index of the 22 major regional banking companies indicated that the banks reported an average earnings increase of around 18 per cent. But the eight largest money centre banks reported earnings increases of an average of only 9 per cent. The difference reflects fundamental changes in the structure of U.S. banks' operations and it is these changes which are demanding that the big banks pay more attention to what is happening in their own backyard.

Perhaps the most fundamental change has been the lessening dependence of major companies on their big bank suppliers of short-term credit. So large multinational companies now say that they no longer use short-term back credit at all confining their bank business to medium-term facilities.

They are meeting their short-term credit needs in the commercial paper market where interest rates on inter-company lending are lower. When credit gets tight again this alternative may lose some of its attraction but for the time being it has had a marked impact on the banking business.

Thus in 1977 while loans at New York banks rose by only 2.2 per cent to commercial customers, in other Federal Reserve districts loan volume increased by a fifth—as in San Francisco and Dallas for example.

The regional banks thus profited from greater lending opportunities. Their lending margins improved too because unlike New York banks they are less dependent in general on money market funds to lend out. The narrowing of margins at the money market banks will also have reflected their growing determination to try and meet the competition. Thus banks such as Chase Manhattan, and even the august J. P. Morgan, have begun to introduce loans priced at below the prime rate to their best customers in an effort to compete with commercial paper.

Efforts

Another indicator of the big banks' increasing attention to their domestic business has been their growing efforts to woo the medium-sized company, the company with sales revenues under the $500m mark that cannot readily participate in the commercial paper market. For this reason the regional banks have not been starved like the big money centre banks of commercial and industrial lending opportunities. But the big banks are responding as best they can within the one-State branching laws of the U.S., by going out and trying to win a bigger slice of this business.

Another indicator of the increasing attention which the big banks are paying to their domestic operations is the new emphasis they are placing on trying to turn their High Street retail bank branches into more profitable—and in some cases into profitable—operations. Nobody pretends that this business is anything more than a marginal profit maker for most big banks like Chase, Citibank or Bankers Trust.

Citicorp has characteristically taken the most publicly aggressive approach and is spending millions of dollars installing automatic teller machines which can take deposits and pay out cash in varying denominations 24 hours a day without any human oversight. It is an entrepreneurial gamble because if customers do not use the machines and still demand the personal teller window service Citibank could be spending unwisely.

Other banks too, however, are busy experimenting or developing more automated systems in their domestic operations in order to up-date them and improve their profitability—the buzz word is electronic funds transfer (EFT).

These changes, the growth of the larger regional banks and the competition from the commercial paper markets are all changing the face of U.S. banking. Whether these changes are as fundamental as some suggest remains to be seen. As credit conditions tighten and money becomes scarce there are those who predict that more traditional patterns will reassert themselves, with the big multinational customers turning again for short-term credit to the big banks on a massive scale.

Some suggest that recent credit growth indicates that this could happen later this year and that in any case by next year some banks will be urgently needing new capital, loan or equity, in order to meet the demands for funds which the economy will then be generating as the recovery from recession moves through its fourth year.

Stewart Fleming

INTERNATIONAL MONETARY FUND

The stamp of approval

THE INTERNATIONAL Monetary Fund, its power and influence growing steadily, has been preoccupied in the past year by the problems of the world economy, by fears of protectionism and by gyrations of several of the world's major currencies.

Although the world has survived the four-fold increase in the price of oil rather better than many in the Fund and elsewhere expected, there are several serious problems still in the process of being solved as a result of it. The price rise has been particularly difficult for developing countries some of which have found the medicine proscribed by the Fund not at all to their liking.

In its role as world economic policeman—a role that it has come increasingly to play in the past year—the Fund has encountered stiff resistance from Jamaica and is currently very concerned about the situation in both Zaire and Peru.

This concern, of course, is shared by commercial bankers who have come to see IMF approval for the economic policies of countries as an indispensable sine qua non for further help. One example of a country where the Fund has had great success is Turkey, where agreement on a Fund programme was followed by a new willingness to consider lending on the part of commercial banks.

Fund officials are conscious, however, that the link between the IMF and these banks is open to misinterpretation. Time and again it is stressed at the IMF's headquarters in Washington that the Fund is not "in league" with these banks; that it does not want to be and that its objectives are by no means always the same as those of the banks. Nevertheless, there are those, particularly on Capitol Hill, who are sceptical about these IMF assurances.

The Fund has assumed its role largely because there is no one else and no other organisation equipped to "hold the ring." It is a very sensitive job and one which is getting steadily more so. It involves decisions that are exceedingly difficult to make, and often have to be taken on the basis of faulty or incomplete information and, as the recent riots in Peru have underlined, there may be explosive political consequences as a result of the diagnosis made by the IMF.

Yet even as the Fund continues to "police" the situation in the developing world it is now moving, albeit gingerly, into the whole issue of exchange rate policy among the developed nations. Under the revised Articles of Agreement which came into effect this spring the Fund has a new power, that of "exchange rate surveillance."

On paper this power, under which the Fund would monitor movement of exchange rates and

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Foreign lending may have peaked

THE EXPLOSIVE growth in the overseas operations of American banks in the 1970s has not been accompanied by a corresponding surge in knowledge of these activities. The relationships between foreign subsidiaries and parent banks, the movement of capital flows, the analysis of risks are just a few of the aspects of overseas banking which remain shrouded from the view of the public at large and to some extent from the regulatory agencies.

These problems have greatly exercised the Federal Reserve System and the Comptroller of the Currency and in the future it seems certain that the overseas lending by U.S. banks is going to be subjected to much greater regulation. Increasingly it seems that the regulatory focus will be on risk assessment not least because leading Congressmen have long been exercised about the possible exposure of large U.S. banks on their loans to less developed countries.

Some light was thrown on the current volume of lending to non-oil producing developing countries when the Fed and the Comptroller published a joint report earlier this year.

The report drew no conclusions from its survey of "country exposure" which was based on returns from 119 banks with assets of $1bn or more. It found that total overseas lending amounted to $164.2bn towards the end of last year and that nearly a quarter represented loans to non-oil developing countries. Of this segment some 95 per cent of the loans were not guaranteed, a higher proportion than some bankers had been hitherto willing to admit. However, Mexico with $11bn and Brazil with $10.5bn accounted for more than half of the total outstanding loans to less developed countries.

About half the total outstanding debt owed by the developing countries was short term with maturities of less than a year, although it was found that three quarters of the Brazilian debt was of longer duration.

This survey provided some of the statistical background to a regulatory advance proposed at the beginning of January by the Comptroller of the Currency. The survey found that there were five leading non-communist countries — Spain, Venezuela, Brazil, Mexico and South Korea —who owed American institutions more than 10 per cent of the aggregate capital of banks lending to these countries. This has been taken as somewhat prima facie evidence that U.S. banks have effectively been able to skirt the law limiting the size of a loan to any one single borrower to 10 per cent of a bank's total capital.

The regulatory authorities have felt that this law was less effective than it should be because banks have often designated government agencies and state controlled entities as separate borrowers. At the beginning of the year Mr. John Heimann, the Comptroller of the Currency, proposed a formal interpretation of the law to establish a "means and purpose" test to establish whether each foreign agency should be treated as a separate client or as part of the central government. More specifically, Mr. Heimann said that loans to foreign governments and agencies controlled by them would be regarded as one unless the borrower could demonstrate that it had independent resources and income to pay back the loan and that the proceeds of the loan would be used for the specific purpose for which the money was borrowed.

One of the less publicised versions of the proposal was in the words of one official, to "force some discipline into the system" by prompting banks to increase information that they collect and maintain on foreign borrowers. Behind this regulatory impulse lies the fear that banks are often less than rigorous in collecting information upon which to assess their risks.

As a result, the U.S. regulatory authorities look likely to step up their activities in risk assessment. Although Mr. Heimann says his proposal is designed to encourage banks to diversify their risks and that his office would be flexible in the implementation of its ruling, it now appears that the means and purpose approach will be supplemented if not replaced by a co-ordinating monitoring system to be set up by the regulatory agencies.

The new system was outlined recently in an issue of the Federal Reserve Board of New York's quarterly review and follows recommendations of a Federal Reserve System committee on foreign lending. The New York Fed adopted these recommendations on a trial basis and then the Comptroller of the Currency and the Federal Deposit Insurance Corporation joined with the Fed on reaching a broad measure of agreement on a new supervisory approach. An important element of the new regulatory system looks likely to be a common reporting form which will measure overall international exposure and its components for each bank. Based on the information on foreign lending which banks provide twice a year, the banking supervisors will be able to evaluate more accurately the exposure which individual banks have in particular countries and of the U.S. banking system as a whole.

Advantages

The regulatory agencies believe the particular advantages of the new approach, which has yet to be approved by the Federal Reserve Board, would be uniform measurement of a bank's country exposure and a systematic basis for drawing a bank's attention to "any large exposure which might be potentially troublesome." This approach would not, the New York Fed stressed, mean that credit ratings would be attached to particular countries and nor "should it establish a list of particularly risky countries to which banks would be told not to lend."

In addition, commented the New York Fed the new approach "should recognise the great uncertainties that exist in any assessment of country risk and should stress that banks are best protected against adverse developments through diversification within their foreign loan portfolios."

Many of the large U.S. banks would argue that such an extension of Federal scrutiny is barely necessary from the point of view of encouraging them to minimise risk. Since overseas lending has been responsible for more than half of their profits in recent years, and since loan losses have been smaller on foreign operations than on domestic loans, the banks would tend to feel that their own internal procedures cannot be found lacking.

Because of the infinite complexities of international credit evaluation, bankers argue that they have, out of prudence, resorted to diversification of risk as a means of credit control. Most of the major international lenders have responded to the evident weakness of countries from Zaire to Turkey and from Peru to Italy, by establishing country risk limits, with gradations or sub limits within a given country by maturity, type of borrower and purpose of loan.

An additional cautionary development, say the banks, has been their growing insistence on a direct relationship with overseas borrowers. Thus, the increasing emphasis in overseas lending has been on carving out specialist market segments, such as shipping, energy, project finance, correspondent banking or whatever, where expertise is built up in risk assessment and business attracted by virtue of the bank's specialised abilities.

The banks, of necessity, have not made a secret of the importance of foreign lending to their balance sheets. Although the proportion slipped a little in 1977 from the year before, profits on foreign lending still accounted for 49 per cent of the total earnings of the ten largest U.S. banks. While foreign loan demand at these banks is still growing at a substantially faster rate than in the U.S., profits suffered last year from a decline in international margins, reflecting a narrowing of spreads between the cost of lendable funds and the amount they earn. But foreign profits of the larger banks were also eroded by an increase in international loan write-offs and by substantial increases in overhead expenses.

Quite conceivably, overseas earnings at the largest U.S. banks may not this year match 1977's 8 per cent rate of increase, partly because of the continued relevance of the factors which have restrained the past year's earnings and partly because of a possible increase in domestic loan demand. Moreover, there has been a marked tendency among some developing countries to repay some loans in advance of their maturity and then to refinance at lower interest rates. Malaysia, South Korea, Indonesia and the Philippines have all sought to reduce their debt burden in this way during the last few months and this is sure to hit the overseas interest income of American banks.

John Wyles

IMF

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if necessary take up "manipulation" of them if it thought it fit to do so, amounts to relatively little. While the Fund can refuse to lend money to countries asking for help, and thus concentrate their minds, it has no such power over rates.

But the Fund does have a way in which it can embarrass members if it feels that they are using exchange rate policy to gain unfair trade or other advantages. It can first take up the issue with an individual nation in private and, if that leads nowhere, it can then bring the issue before the whole 20-man executive board. As a final resort it can publicly criticise a member, but that is unlikely to happen in any foreseeable case.

Some observers have taken issue with the Fund's willingness to "talk down" rates in countries with balance of payments difficulties. Fund economists argue that such deficits indicate a fundamental disequilibrium, often compounded by inflation and that the exchange rate mechanism is the most effective way of restoring a balance.

The Fund argues that it has the prime obligation to keep a balance not just in an individual economy but also in the world economy as a whole and it has had reasonable success in this role since the sudden surge in oil prices.

One reason for this success has been the firm leadership provided by Dr. Johannes Witteveen, the Dutch managing director of the IMF, who is returning to Europe later this year after four years in the job. He has guided the Fund through a very tumultuous period in its history and has resisted the pressures from the U.S. and elsewhere to react more stridently to the oil prices rise and its consequent effect on the world financial system.

His most significant achievement may well turn out to have been the patient way in which he negotiated the supplementary $10bn financing facility for developing nations which bears his name. After months of intricate negotiations he succeeded in persuading Saudi Arabia to take part in this scheme, thereby cementing Saudi to the international monetary system.

Meanwhile Dr. Witteveen's expected successor, M. Jacques de Larosiere, will inherit most of his problems. He will have to negotiate the next round of quota increases where there are more deep-seated differences between member countries than during previous quota increases. He will also have to decide what to do with a Fund study now underway which proposes tentative ways to use SDRs to take dollars out of the international system and thus reduce speculative movements in the exchanges.

M. de Larosiere, if his appointment is confirmed, will also have to deal with another major problem that preoccupies the Fund and the World Bank, its sister organisation. In the past year the African Congress has been putting pressure on both organisations in a variety of ways ranging from the adding of "human rights" amendments to Bills authorising U.S. contributions to taking issue with Bank and Fund salary policy.

This has posed delicate political problems for the Fund's senior management and has enraged most of its employees who resent American attempts to treat the fund as if it were an adjunct of the United States civil service. This is a potentially very serious issue and which depends on the report of a committee currently enquiring into comparative salary levels. The friction caused on this issue could spill over into other areas if it cannot be contained in the next few months.

Yet so important has the IMF "seal of approval" become that the economic well-being of many of the nations with which the IMF deals has come to depend on the efficacy of the programmes that it recommends.

David Bell

Tight conditions at home

JAPANESE COMMERCIAL bankers are currently suffering from multiple headaches arising from their domestic business as painful as any they have experienced in years.

For the best part of three decades of rapid postwar growth by Japan, the banks prospered above all on the relatively straightforward business of channelling the fast-growing savings of individual depositors into fast-growing private sector capital investment. Though they were hemmed in by a web of official restrictions on their activities they could not usually complain about the profits which flowed from the healthy gap maintained in their favour between deposit and lending rates.

Suburban branch of the Fuji Bank in Tokyo.

Now, however, that gap has more or less vanished. Besides, rates of growth in the banks' deposits and loans have plunged, partly as a result of the continuing sluggishness of the domestic economy and partly because of intensified competition from the non-banking sector which is hurting both sides of their balance sheets.

In addition, the banks are having to face up to the consequences of collapse by some of their recession-plagued corporate customers. Bankruptcies last year rose to an all-time peak of over 18,000, and in recent months have been running at about the same annual rate.

The vast majority of cases involve the smaller of the companies classified in Japan as "small or medium size." But there have been some hair-raising exceptions. Last year the banks had to write off Y191bn in debts owed by the now-defunct Ataka Trading Company. In February last Eidai and Company, Japan's leading plywood producer and a manufacturer of pre-fabricated homes, collapsed with debts of Y180bn.

To help other major companies out of financial difficulties, the banks have had to agree to moratoria on interest payments and extended debt repayment schedules. But the banks' difficulties should not be exaggerated. Japan has not had a banking failure since the war, and the ever-watchful Finance Ministry will do its powerful best to ensure that the record is kept.

The Banking and Credit Council, an advisory body to the Ministry, is currently studying an overhaul of the banking system, and its final report, which may be ready in the autumn, is expected to contain some measures to ease the banks' burdens. Nonetheless, the difficulties at present are very real.

The reason for the disappearance of the previously favourable margin on the management of the banks' borrowed funds is the successive reductions in the Bank of Japan's official discount rate, part of the Government's overall policy of bolstering economic activity through both fiscal and monetary stimulus.

Lowered

Last year the rate was lowered three times, the last reduction, in September, bringing it down to 4.25 per cent. In March this year the rate was slashed again, to a new postwar low of 3.5 per cent.

At the "suggestion" of the authorities the banks have lowered their posted lending rates in line with the discount rate reductions, but their deposit rates have come down more slowly. (Deposit rates must compete with those offered on postal savings, reduction of which is a sensitive political issue since the Post Office is regarded traditionally as a safe haven in which the savings of the small depositor can be protected against inflation).

This has meant that since last September the banks have been suffering from a negative margin of 0.75 per cent between the rate they offer on one-year time deposits (now 4.5 per cent), and the prime rate they charge their best customers for one-year loans (now 3.75 per cent). The average contracted interest rate charged on all loans by the 13 Japanese city banks fell for the 37th consecutive month in April, to a new post-war record low of 6.102 per cent.

For the six-month business term ended September 30 last, five of the city banks reported a negative return on the overall management of their borrowed funds, with eight still reporting a positive yield. Figures for the latest term to end-March are not yet available but it seems almost certain that by now most if not all of the 13 have fallen into the negative yield category.

In volume terms the growth in bank deposits has fallen off (to 9.2 per cent for all Japanese banks in 1977 from 12.6 per cent in 1976), partly because of the competition from the postal savings system which, unlike the banks, can offer compound interest calculated on a half-yearly basis. On a two-year deposit, for example, this makes the interest higher than can be offered by the banks.

According to some estimates the postal savings system, with total deposits now standing at over *Y38,000bn (up from* Y30,000bn a year ago) can now claim to be the world's biggest "bank."

Another major problem for the banks — perhaps the most irksome of all recently—is the rapid expansion of the "gensaki" market, a relatively uncontrolled short-term money market based on the sale and repurchase of bonds.

Attractive

Since interest rates are determined by participants without official intervention (the market is dominated by the major securities houses) *gensaki* has proved extremely attractive to corporations with surplus funds and has drawn a considerable portion of traditional corporate deposits away from the banks (which are discouraged by the authorities from participating in *gensaki* trading on the grounds that the market lacks a lender of last resort).

The volume of outstanding *gensaki* transactions soared 40 per cent during 1977 to top Y3,000bn and rose further to Y3,919bn at end-March, making *gensaki easily the second* largest money market in Japan (ahead of the call market but still behind the bills market). Access to these latter two is limited to financial institutions, and rates are closely watched by the authorities.

The *gensaki* market is now having an impact on the banks' lending as well as on their deposit taking, for the market has become an attractive place for some corporations to borrow as well as place surplus funds.

Most fundamentally, however, the fall in the growth of bank lending reflects sluggish demand for capital investment funds by corporations, many of which are still operating at way below existing capacity. Where possible, companies have been repaying loans to lower their interest rate burdens. There is also a growing overall trend among major companies — extremely worrying for the banks—to try to reduce their reliance on banks borrowing and increase the role played by internal financing.

In 1977 lending by all Japanese banks rose only 8.5 per cent, the first time since 1955 that growth dropped below the 10 per cent level. Loans and discounts by the 13 city banks at end-March were up only 8.7 per cent from a year before.

The banks have reacted to their problems, naturally enough, by scrambling for new sources of revenue and by seeking to make more profitable use of their own reserves. One result has been a reduction in the free services traditionally offered by the banks and increases in charges on remittances. Another, and the start of an inevitable longer term trend, has been greater emphasis on consumer loans and long-term housing loans.

Meanwhile, the banks have been lobbying hard for some help from the authorities in the form of permission to offer compound interest, issue certificates of deposits (CDs) (and possibly bonds), and to sell on the secondary bond market *part of the* enormous amount of Government bonds which they have been obliged to absorb in the past.

The burden of absorbing the bonds (the Bank of Japan buys back after an appropriate time lag) turned into something of a blessing last year, given the slow demand elsewhere for the banks' funds. But this situation will change when corporate fund demand finally picks up again, and the banks want to be able freely to dispose of at least some part of their holdings.

They could well be satisfied on this score before the year is out. The authorities realise they need to make the presently rigid financial system more flexible for smooth absorption of rapidly rising government bond issues.

Reflecting increased reliance on deficit financing by the Government, total bond issues in fiscal 1978 (April-March) are stated to rise to Y10,980bn from Y8,570bn last year, with the city banks once again expected to take up a major chunk (during the past two years they have been required *to absorb almost 40 per cent* of total issues).

Permission to issue CDs is a more tricky issue. The authori-

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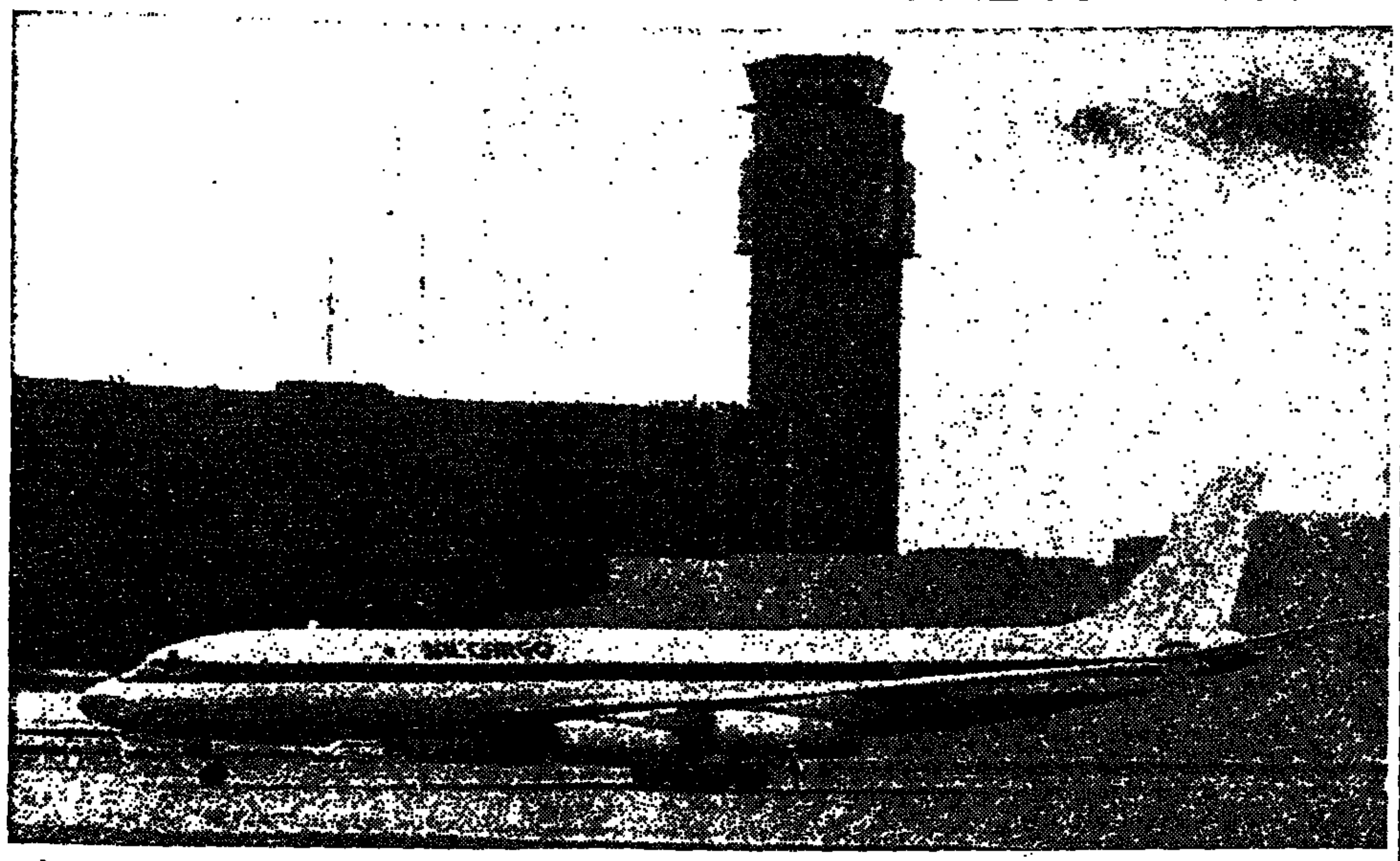

Japan Airlines freighter DC-8 after touchdown at Japan's much troubled new international airport at Narita.

Foreign business on the increase

AFTER TWO or three difficult years following the 1973 oil crisis Japanese banks have once again begun to expand their overseas operations. Syndicated overseas loans, which were banned by the Finance Ministry in 1974 (when the banks faced difficulty in funding such operations), are once again permitted, though subject to guidelines designed to prevent the banks from having to borrow too heavily in short-term overseas money markets in order to finance long-term commitments. The opening of overseas branches, which was subject to a de facto ban during much of 1976, is also once again possible, though again subject to case-by-case approval.

The banks are thus free to start pursuing overseas business again (if "free" is an appropriate word to describe the activities of an industry which is subject to close and continuous supervision by the Government). They are using their freedom with moderation, however. There has been and will be no mad rush into overseas dollar lending of the kind which earned notoriety for Japanese banks in the early 70s. As far as overseas branches go, it would seem that the emphasis remains more on raising productivity from existing branches than on opening large numbers of new ones.

One of the constraints on Japanese banks in building up overseas loan portfolios is the difficulty of finding willing borrowers who have not borrowed too much already. Another issue is what currency to lend in.

Until very recently most overseas loans by Japanese banks were dollar-denominated (the outstanding balance of such loans, other than short-term, at the end of last year was "about $9bn" according to the Finance Ministry). The instability of the dollar and increasing overseas use of the yen has encouraged banks to start offering yen loans, but customers for these are not necessarily easy to find (given the general expectation that the yen will appreciate over the medium to long term). Broadly speaking, it remains true that Japanese banks still play a smaller part in medium- and long-term lending to developing countries (in relation to their own size) than do European or American banks.

Overseas business probably accounts for between 15 and 20 per cent of the profits of the leading "city" banks (with the exception of the specialist Bank of Tokyo) which is chartered under a special "foreign exchange banks law" and has far more overseas branches than any other Japanese bank. The ratio of foreign to domestic profits is expected to rise gradually but will take many years to reach American levels (if it ever does). Meanwhile much of the business done by foreign branches of Japanese banks would appear to be with customers of the same bank's Tokyo head office which have invested overseas or require trade financing.

Presence

The big Japanese banking presence in Asian centres like Hong Kong and Singapore originated for the purpose of servicing existing Japanese customers rather than to provide a base for new business. The loosening of Japan's traditionally tight foreign exchange controls could eventually undermine the necessity for this type of off-shore servicing of domestic customers, in which case overseas branches of Japanese banks could be obliged to become more aggressive. There is evidence that the Hong Kong branches and affiliates of Japanese banks are beginning to take the initiative in looking for new business in their region rather than confining themselves to servicing domestic customers.

The move towards a more independent posture has coincided with a greater stress on wholly-owned or at least majority-controlled overseas ventures. The Ministry of Finance, which initially gave "guidance" to the city banks to join consortia rather than set up wholly-owned operations in many centres (other than the major ones like London and New York), is showing greater flexibility than before. The result has been a growth in the number of Japanese-controlled ventures and a fading interest by many Japanese banks in international ventures where the Japanese stake is rather small.

The freedom of Japanese banks to build up a large and visible overseas presence seems likely to be linked to some extent in future with the facilities which Japan extends to foreign banks operating in Tokyo. The principle of reciprocity is not enforced by more than a handful of nations with which the Japanese do banking business but the notion that too sharp a disparity in the treatment of two nations' banks in each other's territories is undesirable does appear to be gaining ground. This explains why the Japanese Government has come under pressure from the U.S. and Europe to liberalise some of its restraints on banking and in particular to give foreign banks more freedom to open branches and raise yen funds.

The foreign banks' call for more freedom has not fallen on deaf ears in Tokyo. It was in fact explicitly supported by the Japan Bankers' Association. The international departments of the Ministry of Finance and the Bank of Japan also seem inclined to liberalise the treatment of foreign banks, although they may yet have to convince colleagues concerned with the control of domestic banks.

Another field of interest for the international sections of Japanese banks is relations with Communist countries. Japan's trade with them has up to now remained small in relation to its global trade. But the recent signature of a $20bn eight-year trade agreement with China could change this situation. There also appears to be scope for growth in trade with Vietnam. In both cases the role of Japanese banks will be all important since trade will not (initially at least) be evenly balanced and credit will have to be forthcoming from Japan.

Two recent missions of Japanese bankers to Peking have discussed the question of how and on what terms Japanese banks should help to finance exports of plant and industrial materials to China. Agreement on this is handicapped by the reticence of the Chinese (who officially do not accept loans from overseas sources) as well as by the OECD guidelines on the minimum lending rates attached to exported-related credits to developing countries.

Japanese banks may adopt the expedient of "depositing" money with the Bank of China as one means of financing exports. Whatever approach is decided upon it seems clear that they have an important role to play in building up trade between Japan and China.

Charles Smith
Far East Editor

Home

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ties are still studying questions of definition—whether CDs should be a form of deposit or a fully marketable security—and what the maximum period should be (most likely less than one year so that they would not compete with the debentures which four non-governmental banks are at present allowed to issue—the three long-term credit banks and the Bank of Tokyo).

Foreign banks in Japan have recently weighed in with their own requests for permission to issue CDs, and Citibank raised a ruckus by asking if it could issue a yen bond on the Japanese capital market.

The foreign banks' moves have been quietly welcomed by Japanese banks since they could help prod the Finance Ministry into action. But the home banks would be wise to be patient, for when it comes to major changes in the financial system the last thing the Ministry is known for is acting hastily.

Simon Tait

Ready and welcome borrowers

THE MANNER in which Western financial markets have smoothly integrated Comecon borrowing into their overall operations over the past five years is in itself a rather eloquent testimonial to the usefulness and flexibility of free markets.

All the Comecon countries are in the middle of their current five-year plans which involve major investment programmes including substantial purchases of equipment from the West and substantial borrowing on Western capital markets. Bad harvests in the Soviet Union and Poland have also added to their borrowing requirements at a time when the unexpectedly stubborn recession in the West has reduced their opportunities for sales to the hard currency area.

This is reflected in an actual decline in the volume of East-West trade last year. It hit Western exports hardest as the centrally planned economies made a conscious effort to reduce their trade deficits. Imports from the West last year actually declined 5 per cent, while exports rose 3 per cent. This year higher grain imports and the continued need for plant and machinery to complete projects under way point to a resumption of higher imports from the West.

It is interesting to note, however, that while the overall volume of East-West trade declined by around 3 per cent last year the volume of Comecon debt continued to grow, albeit at a somewhat slower pace than the peak year of 1975.

According to the UN Economic Commission for Europe, the net borrowing in Western capital markets last year was around $6.1bn., roughly the same as 1976 but well below the 1975 peak of $8.6bn. The commission estimates that gross debts—original borrowings minus repayments and minus foreign currency reserves kept in Western banks—rose last year to between $37bn. and $40bn. compared with $32-35bn. in 1976.

As recently as two years ago a certain amount of disquiet was shown in some sectors of the market over the rapid build-up in the Comecon debt position, especially that of some countries like Poland which faced heavy repayment schedules towards the end of this decade and into the 1980s.

Reassuring

Closer examination of the overall debt position, however, has tended to put a more reassuring gloss on the situation. Roughly half is government-to-government debt of various kinds arranged through export credit guarantee departments or their equivalents and the remainder is spread among European, Japanese, American and to a lesser extent Arab banks.

European banks are more heavily involved than American, reflecting the much higher volume of trade between Comecon countries and trade partners in Western Europe. According to American bankers the lion's share of Comecon financing is borne by West Germany, partly because of its special financial relations with East Germany but also because of the sheer volume of its own East-West trade. Some American bankers estimate that West German banks or Government institutions hold roughly a third of total outstanding claims against Comecon countries.

Against this the U.S. Comptroller of the Currency recently put out a report which showed that the 119 largest U.S. banks had a commitment of only $5bn. to Comecon at the end of June, 1977, which represented only 3 per cent. of their outstanding global claims of $164bn. These figures hint at the considerable potential for U.S. bank expansion in this area before coming up against their legal lending limits. Chase Manhattan calculates that up to $10bn. could be potentially forthcoming.

There still seems to be considerable scope for further growth in Comecon lending and bankers also point out that Comecon's outstanding debt to the West is still small in relation to the size of the economies concerned, taking into account their excellent credit record and their proven ability to shift resources into debt repayment quickly and effectively if needed.

This is particularly so in the case of the Soviet Union and the point was forcibly made by the deputy chairman of the State Committee for Science and Technology, Mr. Djermen Gvishiani during his recent visit to London at the head of a trade delegation. After running through the familiar list of Soviet mineral, energy and other wealth — including gold and diamonds — he pointed out that foreign trade accounts for only some 4 per cent. of Soviet GNP and that 60 per cent. of it was intra-Comecon trade. There was he clearly implied, considerable room for an expansion of trade with the West and of the kind of financing which went with it in the next five year plan period starting 1980.

Any other positive factor in Comecon lending is that, unlike Britain, Italy and several other countries in recent years, a high proportion of Comecon loans is linked to specific investment projects, often tied to compensation agreements which guarantee a hard currency market for the end-product.

That said, however, the stubbornness of the Western recession and the growth of protectionism in areas like textiles and steel has adversely affected the performance of several Comecon countries, particularly those without indigenous energy supplies. The latter have suffered a substantial deterioration in their terms of trade generally.

In total, however, lending to Comecon countries has clearly become an established part of the international financial scene and is recognised to be an essential lubricant of mutually beneficial East-West trade.

All the signs are that 1978 will see a further increase in Comecon borrowing. The margins the international banks charge on their loans have been falling as a result of the generally high level of liquidity, and Comecon borrowers have been quick to seize this opportunity both to raise fresh funds and, where possible, to re-schedule their existing borrowings through the market. The aim here has been to even out the sort of bunched repayments which Poland, East Germany and some other countries face at the end of this decade and the beginning of the 1980s.

The Soviet Foreign Trade Bank set the pace early in January by coming on to the market for a $300m. Eurocredit at a spread of $\frac{3}{4}$ per cent. over inter-bank rates, the lowest thus far obtained by a Comecon borrower. It was oversubscribed even though below the 1 per cent. spread of the preceding $600m. loan arranged for the International Investment Bank.

Shave

But it was the National Bank of Hungary, which enjoys an enviable reputation for financial sophistication, which sought to shave rates even finer when seeking a $300m. eight-year loan with a spread as fine as $\frac{5}{8}$ per cent. for the early part of its life.

Poland has also been active, with Bank Handlowy working hard to raise funds from a wide variety of sources to cover Poland's still substantial payments deficit and fund its expensive long-term mineral and energy projects plus further grain imports. New ground was broken with the $250m. medium-term Eurocredit for the expansion of the Polish copper industry which designated the Lubin Copper Mining and Metallurgical Combine as the borrower. It was recognised as a separate borrowing entity under U.S. regulations after a special ruling by the U.S. Comptroller of the Currency.

Comecon borrowers are clearly taking full advantage of abundant liquidity in the market and are busy signing up new credits, not only with the banks but also official credit lines with government departments. There is, however, growing market resistance to further shaving of margins on loans to Comecon or indeed any other class of borrower.

Meanwhile the total volume of Comecon indebtedness to the West seems destined to grow further. The OECD, which calculates the 1977 debt at around $42bn., expects to see a further growth in borrowing this year and has prepared some longer term projections which show a further climb throughout the 1980s.

One of the main imponderables in making such calculations of the future trend of indebtedness concerns the future course of agricultural developments, particularly in the Soviet Union and Poland. More resources are being poured into Soviet agriculture than ever before and some recent academic studies indicate that the Soviet Union could well be a net exporter of grain in the 1980s. But such high hopes have been expressed many times before.

Anthony Robinson
East European Correspondent

THE CARIBBEAN

Region of mixed fortunes

ECONOMICALLY, the past 12 months have not been easy ones for the Caribbean region. In a musical comedy about it performed recently in London one of the characters summed it up well in a humorously pessimistic calypso. "The inflation rate is rising," he sang sadly, ". . . but that GNP is a-sinking in the West."

The fortunes of banking in the area have naturally tended to reflect this, fluctuating over the year roughly in step with the economies in which the banks operate. In Trinidad and Tobago, which thanks to its oil and gas wealth is the one economic bright spot in the region, the nine commercial banks all made handsome profits last year. In the depressed Jamaican economy, by contrast, only three out of the nine commercial banks succeeded in making a profit and the banking system as a whole showed a combined loss of J$13m.

While Trinidad's banks are booming (the Royal Bank of Trinidad and Tobago boosted its pre-tax profit from TT $14.6m in 1976 to TT $22.9m last year), the country's bankers have, however, had to confront other problems. Principal among these has been the fact that loan demand threatened to outpace available funds.

The banks' excess liquid resources dropped to 9.1 per cent of deposit liabilities by the end of last year compared to 17.1 per cent at the end of 1976 and they were forced to raise their interest rates on deposits. Unusually, at the same time, they eased slightly their charges for money lent (from a weighted average of 9.8 per cent at the end of 1976 to 9.09 per cent at the end of last year).

The latter move was caused by pressure from the central bank towards the end of 1977 to make the banks choke off funds to some of their most valued customers — Trinidad's property speculators. The latter have excited much governmental and public displeasure in recent years by pushing up property prices on the island at a rate that would have occasioned comment even in the gold-rush towns of the Wild West.

The banks' lower interest rates on loans and advances were designed to encourage new borrowers.

In the tight credit situation prevailing for most of last year, the banks were also urged by the central bank to ensure that the productive sector did not lack finance and about 59 per cent of net credit expansion during 1977 was directed to the business sector compared with only 39 per cent the previous year.

Leakage

The main reason for the slower rate of deposit growth last year was the leakage of funds from the Trinidad commercial banks to finance houses. The latter now outnumber banks by 11 to nine (three new finance houses were established last year alone) and the fierce competition for deposits from these companies obliged the banks, in addition to raising their interest rates, to call upon their special deposits with the central bank to try to remedy the situation. The advent of the finance houses has also worried the Trinidad Government. Concerned about the lack of laws governing their operation, it has promised to bring in legislation this year to remedy the omission.

Trinidad's banking problems are those of a booming economy. In Jamaica the banks have been operating in a much less healthy business environment. Despite a devaluation three weeks ago (forced by the IMF in return for a U.S.$240m loan), no bankers expect a miraculous recovery and the depressed economic conditions have been amply reflected by the banks' performances.

Only three of the nine commercial banks on the island made a profit last year—largely because of a widespread unwillingness among Jamaicans to borrow. In sharp contrast to Trinidad, the banks are extremely liquid. Neither consumers nor businessmen, however, have made many demands upon the funds and there is a widespread view that the economy needs at least several years before it will begin to pick up.

Last year the commercial banks' loan portfolio grew by only 8 per cent — a sharp decrease on the 18 per cent by which it expanded even in 1975. Legally, Jamaican banks must observe a reserve requirement ratio of 29.5 per cent of their liabilities. So limited, however, were the outlets for investment in the country last year that at one point the banks had handed over some 42 per cent of their funds to the Bank of Jamaica, the central bank.

At the other end of the Caribbean, meanwhile, the offshore financial centres of the Bahamas and the Cayman Islands continued to play an increasingly important role in international lending activities, especially those of U.S. banks. Seventy-nine of the 97 Eurocurrency branches of foreign banks now doing business from the Bahamas are American.

Since 1975 more offshore loans by U.S. banks have been recorded in the Caribbean than in London, with most of them being booked through the Bahamas. At the end of September 1977 the Bahamas and Caymans accounted for 38.8 per cent of the total compared with 23.5 per cent in London.

IMF figures show that external claims by U.S. bank branches in the two Caribbean centres (excluding claims on banks) amounted to $33bn at the end of the third quarter of 1977, up $6bn from the year before and $14bn more than in

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Plan to relieve debt burden

AGREEMENT IS expected to be reached soon between the Turkish central bank and eight major international banks on a formula to restructure short-term Turkish debts totalling about $2bn and syndicate $500m of fresh money to finance the 1978 trade deficit.

The $2bn—the biggest restructuring undertaken in the history of the Eurodollar—represents short-term foreign currency placed by foreign banks in so called "convertible Turkish lira deposit accounts" (CTL) in Turkish banks. The CTL system was introduced in 1975 when, faced with a deteriorating foreign exchange situation, the Government started offering attractive spreads to Eurodollar deposits in Turkish banks.

For about a year the system worked without creating any headaches. The foreign banks were happy because they received an attractive spread over the London Interbank offered rate (Libor). The central bank was happy because it used the deposits to finance the trade deficit. Turkish banks and businessmen were happy because the Turkish lira equivalents of the CTLs created a welcome new source of credit.

Unable

However, the happiness did not last long. With the foreign exchange situation deteriorating rapidly the central bank found itself unable to service the CTL deposits, or for that matter anything else. By the end of 1977 the central bank had been unable to service $2.153bn of debts which had fallen due under three short-term categories: $289m of CTL deposits, $350m to Iraq for crude oil and $1.5bn of cash against import of goods and reimbursement claims from third parties, mainly under letters of credits. At the end of 1978 this figure will have risen to $3.6bn, $1.4bn of it alone in CTL accounts.

As early as the beginning of last year it had become apparent that something would have to be done about the CTLS which had grown to involve 221 banks and approximately $2bn—figures which stand witness to the success the system had once enjoyed.

An interesting aspect of the disaster is that it might not have come about at all had Turkey been wise in its borrowing policy. The Government made two crucial mistakes when it introduced the system in 1975. It awarded a constant spread of 1.25 per cent to all deposits irrespective of term and took over the foreign exchange risk. Because of these errors all deposits were placed for between three to 12 months, 80 per cent of it in Swiss francs and Deutche-Marks. In other words, although the country could easily raise medium term loans at favourable rates and in favourable currencies it incurred short-term debts at the most unfavourable rates and in the most expensive currencies.

The mistake was further compounded by the fact that the Turkish lira equivalents of the deposits went not into productive fields but into current expenditure. In effect, because of ignorance of the international monetary markets and their mechanism, the Government used a most expensive set of currencies to finance the least productive endeavours in Turkish business. "Foreign borrowing we could not see beyond our noses," admitted a Turkish banker in Istanbul.

Last April, after the new Government completed its programme of economic austerity measures, talks started between the central bank and eight international banks on restructuring the $2bn debt.

The banks, which formed a so-called co-ordinating committee, are Citibank, Chase Manhattan, Morgan Guaranty, Barclays, Dresdner Bank, Deutsche Bank, Swiss Bank Corporation and the Union Bank of Switzerland. These banks took the lead because their exposure is over 25 per cent of the total.

The agreement they will reach with the central bank, probably by the end of this month will be submitted to the ratification of the remaining 212 "strictly on a voluntary basis." As one banker said: "Our hope and conviction is to convince all banks that our formula is the most reasonable one which will give us security and Turkey relief."

According to this formula, deposits in the convertible Turkish lira accounts will be extended for three years as they mature—with none, however, being extended beyond June-July, 1985. The extension will be effected to each deposit as it matures, this being applicable also to deposits which fell due last year and have not been repaid.

Stabilise

At the end of the third year after extension 25 per cent of each deposit will mature and 25 per cent each consecutive year. It is hoped by bankers that by the end of the third year after agreement the Turkish economy will stabilise so that foreign banks may want to keep their deposits in Turkey instead of taking them out.

Repayment will be made in the currencies that the deposits were made. Interest appears to be a matter which has not yet been fixed. Failure of some banks to participate appears to be another matter yet to be fixed. "We trust that the majority of the banks will participate in this programme," said one of the representatives of the eight.

More than half of the CTL deposits have been placed by 46 larger banks which will presumably all ratify the restructuring. Some bankers believe that the restructuring may get underway by the end of next month.

The eight banks will also spearhead a syndicate to obtain $500m or more fresh money for Turkey for financing the 1978 trade deficit. Although whetting the market appetite will not be easy it is likely that banks which have large stakes in Turkey and take a longer perspective of the economy will come forward. "This will be difficult but not impossible," said a banker about the chances of the syndication.

The difficulty over the convertible Turkish lira deposits was just one facet of the general crisis which made 1977 the worst year the Turkish economy has had. Import transfers had to be suspended in February 1977 because of lack of hard cash. Inflation went well beyond 30 per cent and unemployment to 3m. Exports dropped $1.7bn from almost $½bn in 1976 and the trade deficit grew to nearly $5.2bn from $5.1bn in 1976.

At the end of last year Mr. Suleyman Demirel's inefficient Right-wing coalition, which is greatly to be blamed for the current mess, was overthrown in Parliament by Mr. Bulent Ecevit. Mr. Ecevit, whose Left-of-Centre Republican Peoples Party is the biggest in Parliament, formed a Government with the support of a dozen defectors from Mr. Demirel's Justice Party.

The new Government quickly addressed itself to the task of stabilising the economy. An agreement for a standby loan was signed with the IMF and pledges of increased loans were received from the World Bank. A comprehensive austerity package, which included 30 per cent devaluation of the Turkish lira, was introduced. Import transfers were partially resumed in the beginning of May. Many Government-to-Government contacts were initiated to secure loans, with success in this field being recorded with, for instance, Libya, Romania and West Germany.

In less than five months Mr. Ecevit took many steps in the right direction but it is not certain whether these will suffice to extricate Turkey from its dire straits. Most bankers and industrialists agree that it will not be until the end of June before new trends appear.

Metin Munir
Ankara Correspondent

THE CARIBBEAN

CONTINUED FROM PREVIOUS PAGE

December 1975. By comparison, similar claims by U.S. bank branches in the UK increased by only $3bn to $20bn in the two-year period.

At the end of 1976 some $67bn (or one-third of the assets of all foreign branches of U.S. banks) were held by branches in the Bahamas and Caymans. Of this amount the vast majority ($55.4bn.) was assigned to the Bahamas.

Lower operating costs, no direct taxation on personal or corporate income and liberal exchange control regulations for offshore operations are the principal inducements for bank location in the Bahamas and Caymans. Bahamas offers, in addition, good communications and a growing pool of trained personnel to meet the needs of the industry. Given continued political stability, offshore business there can be expected to grow at the expense of the Caymans.

Revenue from the financial sector has become an integral element in the economic planning of both countries. There is some concern therefore over the proposal to create a free-trade banking zone in New York to recapture the international business lost over the past 15 years to offshore centres like the Bahamas and Caymans.

The U.S. Federal Reserve has, however, by no means given its support yet to this plan and it may well be many years before such a plan is put into effect. Nevertheless bankers agree that such a move could not fail to lead to a sharp contraction in the level of offshore banking business conducted from the two Caribbean centres.

Elsewhere in the region, banking last year has been conducted in a business climate not quite as monotonously benign as that which nature provides for the many tourists in the area. In Guyana, still largely dominated by the branches of foreign international banks, informed sources suggest that if the banks did not actually lose money (as in Jamaica) they certainly did not make a great deal.

The country's depressed economy (again, like Jamaica, it has sought relief in the form of an IMF loan) has made life difficult for the five foreign banks operating there. The banks also have the threat of nationalisation by the Government of Mr. Forbes Burnham hanging over their head.

Some selective nationalisation, with the buying-out of individual branches of banks, has taken place and the Guyana central bank has been asked by the Prime Minister to conduct a study on how "consistent with the developmental objectives of Guyana" is the operation in its present form of the country's foreign banking sector.

Instructed

In Barbados, which is faced with a worsening balance of payments situation, the eight international banks operating on the island were instructed last year by the central bank to increase their reserve requirements. This reduced their lending capacity while at the same time there was a sharp drop in deposits. As in Trinidad, the banks' response was to raise their interest rates on deposits in a bid to attract new funds.

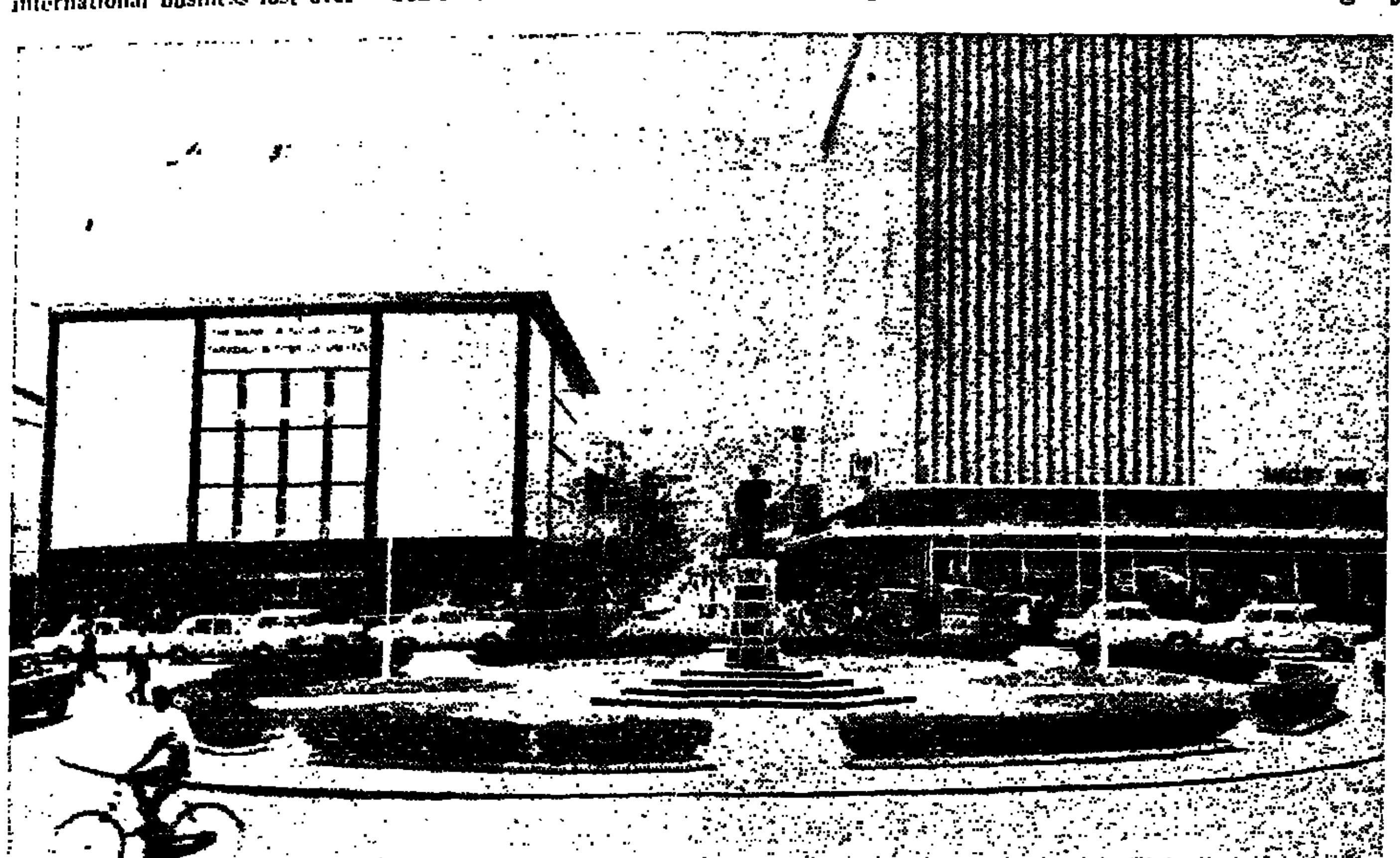
In the Eastern Caribbean islands (Grenada, St. Lucia, St. Vincent, Dominica, Antigua, St. Kitts-Nevis and Anguilla) the Easter Caribbean Currency Authority (ECCA) reported that bank liquidity, especially in the first half of last year, was high. Interest on loans fell from an average of 11 per cent to around 8 per cent but the effect upon demand was reported to be slight.

Banking, finally, is not without a sense of humour in the Caribbean, as the saga of one financier and fugitive from justice demonstrates. He came to live on a Caribbean island where, employing some of his ill-gotten funds, he gained control of a local bank.

Within a short time, a large number of the island's politicians were clients of the revamped bank and had run up impressive overdrafts with it. Quite satisfactory to all concerned while it lasted, this situation unfortunately changed when after a while the hot breath of pursuing law enforcement agents made the financier's continued presence on the island a grave embarrassment to the political party in power.

In a swift move one day therefore the politicians intimated strongly to the financier that it was time he moved on. Simultaneously, they closed down his bank. The closure was necessary, one of the (somewhat over-drawn) politicians later solemnly explained, because of the institution's "unsound banking practices."

John McCaughey



Part of the banking quarter in Port of Spain, Trinidad.

Outstanding progress on all fronts

LAST YEAR was one of outstanding progress for Israel's banking system. In contrast to some branches of the economy which have been marking time for the past few years, Israeli banks expanded their activities substantially both at home and abroad. The combined balance-sheet of the major Israeli banks just about doubled in terms of the Israeli pound, while profits in most cases more than doubled. However comparison of figures in a country suffering from inflation and rapid devaluations calls for a more painstaking analysis.

The results must be viewed against the background of the rapid growth of the banking system over the past two decades, when the expansion of the banking industry was much faster than that of the country's GNP. Whereas in 1964 the total balance sheet of Israel's banks was about 60 per cent of GNP, the ratio rose to 90 per cent in 1970 and jumped to 244 per cent in 1977. In other words the growth of the total balance sheets of the banks was four times faster in this period than that of the economy in general, as measured by GNP at current prices.

The total balance of the Israeli banks at the end of 1977 amounted to I£328bn or some U.S.$ 21bn compared with some I£134bn for GNP at current prices. (Comparison with GNP overcomes the problems created both by the general economic development and local price increases, which have been very pronounced—42 per cent in 1977 and 38 per cent in 1976.) *In real terms,* after allowing for these price rises, the growth rate of Israel banking was 19 per cent in 1977, 10 per cent in 1976, 20 per cent in 1975 and 10 per cent in 1974.

The rapid increase in the balance sheets of the Israeli banks reflects the fact that they are linked to the cost-of-living index and to the rate of exchange to the extent of about 85 per cent—i.e., 45 to 46 per cent of the balance sheet is either in foreign currency or linked to the rate of exchange while another 40 per cent is linked to the cost-of-living index (both on the liability and asset side), leaving a very tiny surplus of linked assets over liabilities. Thus whenever the *cost of living goes up, or there* is a devaluation, the balance sheets of the banks grow accordingly.

Last year, with its accelerated rate of devaluation (78 per cent in relation to the dollar), including the devaluation (nominally of 42 per cent) declared on October 28 as part of the "New Economic Policy," was a case in point. The increase in the foreign exchange component in the aggregate balance sheet of the banks was 126 per cent—compared with a 67 per cent rise in the local currency portion. Altogether, over I£150bn (out of a total of I£328bn) is quoted in or linked to the rate of exchange (as against only I£66.3bn in 1976), *whereas I£177.5bn* are in local currency (I£106.6bn in 1976). wheres I£177.5bn. is in local activities of Israeli banks only and do not include the balances of foreign branches or subsidiaries.

The linked items in the balance sheet include more specifically on the liability side foreign currency deposits of foreign residents, current and fixed-time deposits, foreign currency deposits held by Israelis (e.g., deposits derived from German restitution or pensions) and local currency deposits linked to the rate of exchange held by Israelis. As to deposits linked to the cost-of-living index, whereas current accounts are not linked, 90 per cent of the fixed-time deposits, predominantly the large range of special five-year savings schemes, are so linked. The same goes for virtually all fixed-time deposits of public institutions deposited for the purpose of lending by the banks.

Another conspicuous feature of the Israeli banking system is its high rate of concentration. The number of banking institutions had fallen to 27, at end-1977 from 32 in 1974, 42 in 1970 and 50 in 1960. Moreover, four are quite small credit co-operatives and one a medium-sized institution with 23 branches. The "Big Three" banking concerns, which control 12 out of the 20 banking institutions, account for some 92 per cent of total banking business in Israel. Between 4-6 per cent is handled by two medium-sized banks, while the remaining 2 per cent represents the balances of the five small concerns. It should be noted, though, that in restricted fields where competition is fiercest, the ratio of the medium-sized banks is slightly higher.

The trend towards concentration has slowed down recently. The authorities would like to see more rapid progress on the part of the medium-size banks and favour the merger of the small banks with the medium-size institutions.

Stiff

The high rate of concentration is of course typical of many *other small countries such as* Ireland, Greece and Holland, and similar to that of Britain, but is very different from the situation in some European countries and in the U.S., where most Israeli economists receive their higher education and therefore tend to criticise this development. Objectively, however, one may conclude that competition among Israeli banks, particularly among the "Big Three," is very stiff, even if it does not always take the form of price competition.

Again similar in pattern to the UK but unlike most of the U.S., is the large number of branches operated by Israel's banks. Including some in major hotels and a few in the occupied territories, the aggregate total is just under 1,000. The Bank Leumi group has 312 branches in Israel, Bank Hapoalim 284 and the Discount Bank group 218—i.e., the three big concerns account for 814 out of the total of 964 branches of the commercial banks and the 28 operated by the credit co-operative societies.

Opening of new branches is subject to approval of the Examiner of Banks of the central bank, the Bank of Israel. Because of the sensitivity of the issue, a public committee was appointed to recommend the licensing of new branches, which have averaged 10 to 20 *a year over the past 15 years.* It would appear therefore that the number of branches per thousand population, which used to be very high, has been gradually reduced by the small number of permits granted by the committee. This despite the fact that—in contrast to the practice of the 1960s—70 per cent of wage and salary payments and a similar proportion of social security benefits, are transferred directly by magnetic tape (via the banks' computers) to the recipients' accounts.

Research by the staff of the Examiner of Banks indicates that there are 3,883 inhabitants per branch in Israel, compared with 1,407 in Finland, 1,763 in Canada, 1,878 in Sweden, 2,037 in Austria, 2,207 in Holland, 2,301 in Japan, 2,383 in Britain, and 4,457 in Italy.

Some of the new branches are efficient, *modern,* well furnished, spacious and to a certain extent "luxurious," something which has attracted criticism in certain circles.

Israel's commercial banks might be termed "supermarkets of finance." Not only do they provide the necessary working capital for production processes and trade against collateral of the type of "self-liquidating assets;" they also encourage, promote and succeed in mobilising large amounts of money from the public for their special savings schemes, all linked, which range from deposits providing for higher education to savings plans assuring the depositor of a mortgage at the end of the five-year savings period.

These schemes play a vital *role both in syphoning off* surplus purchasing power and in providing the Government with funds, since they are backed by linked Government bonds—a major item on the income side of the Budget. The total amount accumulated in these cost-of-living linked savings reached I£37bn at end-1977 ($2.4bn), an increase of 90 per cent over the preceding year. Half of this increase was due to the opening of new savings accounts (which protect the holder against erosion of his capital) and half to linkage differentials.

Attack

But commercial banks in Israel, unlike their counterparts in many other countries, also own and operate a large range of financial institutions — mortgage banks, industrial *investment* banks, agricultural development banks, investment and finance companies and so on. The commercial banks, like those on the Continent but unlike banks in Britain and the U.S., are also extremely active in securities trading and on the stock exchange. They act in various capacities and fulfil a number of functions such as advisers to individual investors, brokers, underwriters of shares and bonds, owners of investment companies and managers of unit trusts.

Since over 80 per cent of trading on the Tel Aviv Stock Exchange is in the issues of financial institutions, this multiplicity of functions made the banks the subject of attack during the sharp fluctuations on the exchange during the second half of 1977, fluctuations set off by indiscriminate buying—even though such reckless purchases were not made on the advice of the banks but usually by self-*styled "investment advisers"* or "portfolio managers."

The volume of trading on the Tel Aviv Stock Exchange reached unprecedented levels last year, while the general share index jumped by more than 70 per cent. Banks took advantage of the wide participation by the public by floating shares, rights issues, and capital notes and succeeded, overall, in doubling their capital.

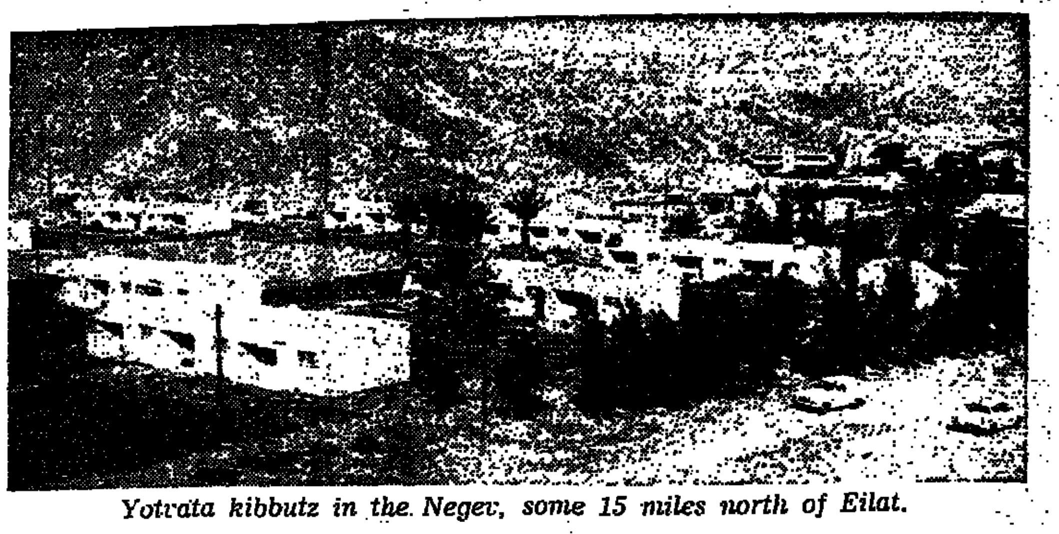
Nevertheless, in view of the rapid rise in the balance sheets the banks' capital is very small in relation to assets—some 2.3 to 2.5 per cent and much smaller than in most countries. Needless to say, in view of their favourable results for 1977, bank shares were least affected by the fluctuations, and the banks plan further issues for 1978.

The past few years have also *witnessed a substantial expan*sion of foreign business. Overseas operations of the "Big Three" are very large in relation to the small size of the country, with Bank Leumi ranking among the 100 largest in the world. Israeli banks have branches and own subsidiaries in the U.S., Britain, France, Switzerland and elsewhere. Agencies and representative offices are located in many European countries, North and South America, South Africa, Hong Kong and Australia. Substantial progress having been made abroad last year, the share of foreign business in the total balance sheet of the banks may be put at 20 to 25 per cent, with further expansion planned for 1978.

At the same time the introduction of the Government's "New Economic Policy" (NEP) at end-October 1977, involving the floating of the Israel pound and a substantial easing of foreign exchange controls, presented new challenges and opportunities. The NEP opened up new avenues for depositing and borrowing in foreign exchange, and for free operations in international money markets. The banking industry adjusted itself with great efficiency to this entirely novel situation and it is hoped that it will make the fullest use of its international contacts.

Finally, there is profitability, a very hot issue in Israel. Most banks doubled their profits (and their capital) last year. A closer look at the figures indicates that that was so not only in absolute terms but that also profit per share also rose by some -0 to 20 per cent. However, profitability per share, in real terms (discounting inflation) was virtually unchanged or slightly down, depending on the definition adopted. Taxes on inflationary profits on Israeli banks are higher than on any other branch of the economy. It is essential for banks to maintain a high rate of profitability in order to enable them to accumulate reserves. In a country like Israel, this is of the utmost importance in view of the political and economic situation. There are signs that the authorities are beginning to realise this.

Dr. Asher Halperin
Director-General, Association of Banks in Israel



Yotvata kibbutz in the Negev, some 15 miles north of Eilat.

Checks on credit and money supply

ONE NEW Greek commercial bank and branch offices of two more foreign banks have been added in the past year to the ten Greek and 12 foreign commercial banks already operating in the country. The new Greek bank is Bank of Macedonia and Thrace and it is the only one to have its head office located at Thessaloniki. Its share capital is being subscribed by legal entities and private individuals in Northern Greece who wanted to have their own local sources of financing. According to present indications, the new bank's share capital will total about 1.5bn drachmas, well above the paid-up share capital of 500m drachmas now required for establishing a new Greek bank.

The two new foreign banks to establish full branch services in Greece are Barclays Bank International and Bank Saderat Iran. The latter is the only non-European and non-North American bank so far operating in Greece. Talks have been going on for some time for establishment of a Greek-Arab bank but these have not yet been completed. At the moment there are six American banks, four British, a Canadian, a French, a Dutch and now an Iranian bank with a total of 35 full-service branches in Athens, Piraeus and Thessaloniki.

Attract

Last year these foreign bank branches were handling about 13 per cent of all deposits and 15 per cent of all credits outstanding with commercial banks as a whole. Besides Greek shipping with its international business connections, what appears to attract these banks to Greece is the country's growing transactions with the Middle East, its forthcoming accession to EEC and sizeable capital inflows from Greeks abroad as well as from foreign businessmen.

A broad series of measures are due to be taken soon to help stabilise the economy, fight inflationary psychology and reduce the trade deficit. Some of these measures would have been announced in mid-May but for the recent change in Ministers responsible for economic policy.

The monetary authorities believe that the persistence of relatively high inflation rates in recent years (12-13 per cent annually) has been due to the rapid growth of money supply and credit. One of the measures proposed aims at checking the low rate of increase in bank deposits and the trend in higher spending on consumer goods as well as extensive investment in property. Bank deposits between October 1977 and March 1978 went up by only 9.5 per cent against a rise of 14.2 per cent in the corresponding period a year earlier.

As an incentive to help channel deposits back to banks, one proposal is to raise, at least provisionally, interest rates by as much as 2 to 3 per cent. Thus basic interest rates on simple savings deposits with commercial banks, which since the beginning of 1977 are a tax-free 7 per cent, would go up to a maximum of 10 per cent and time deposits from 8.5 to 9.5 per cent to 11 to 12 per cent, depending on the time period funds are deposited. Commercial banks believe that such a rise in the cost of deposits would mean an annual burden to them of approximately 8bn drachmas. This would have to be met by a narrowing down of the banks' profit margins but also by a rise in the cost of bank credits to enterprises and individuals.

The monetary authorities, however, would be reluctant to see an increase in interest rates on credits exceeding one to two percentage points. If such a rise is finally approved, it would mean that rates on long-term loans would go up from 11 to 12 per cent per annum (including bank commisisons), on export loans from 9.5 per cent to 10.5 per cent, on short-term lending for working capital from 13 to 15 per cent to 15.5 to 17.5 per cent, and on interesting-bearing Treasury bills from 7.75 to 8.25 per cent to 9.75 to 10.25 per cent.

The authorities appear hesitant to sanction these increases in the cost of money, fearful that they might contribute to a further rise in industrial goods prices and ultimately to a rise in the cost of living. According to the experts who proposed the readjustment of interest rates, the higher cost of bank credits is not likely to affect the cost of industrial production by more than 1 per cent and will not feed inflation by more than 0.3 to 0.5 per cent. Experience, however, indicates that inflation psychology tends to carry away upwards the cost of many goods and particularly services in chain reaction, thus defeating the purpose of interest rate adjustments.

Demand

Besides interest rates, the problem facing banks is the volume and type of credits to be extended. The Governor of the Bank of Greece, Professor Xenophon Zolotas recently pointed out that inflationary conditions inevitably lead to a large increase in demand for credit to finance speculative investments. This requires strict control over bank lending so as to meet the requirements of productive sectors (such as exports and new investments) and restrain leakages of bank credit to non-productive and speculative activities. "It seems," he said, "that the banks under the pressure of abundant liquidity, have relaxed the criteria applied in selecting their loans."

At the same time the new Minister of Economic Co-ordination and Planning, Mr. Constantine Mitsotakis, has announced that "the banking system will have to be changed, because it is inadmissible that it should be allowed to burden—perhaps excessively—the cost factors of the economy and at the same time tread the rosy path of certain profit."

The Minister did not expand on the changes he has in mind but as the system stands today, almost 85 per cent of the country's banking is under State control, with two giants, the National Bank of Greece and the Commercial Bank of Greece, dominating the scene. Bank rates, therefore, which are fixed by the central bank's Currency Committee and which apply to all banks without exception, are invariably geared to the requirements of the National Bank which has to cover excessively large overheads and finance many Government-sponsored projects which are deemed socially expedient but are rarely profitable.

As a result, an efficiently run private commercial bank can produce handsome returns as proved by Ergobank, a relatively new Greek bank set up two years ago. Ergobank's first balance sheet showed a net profit of 50.15 per cent as a percentage of gross profit compared to an average of 12.66 per cent for other banks while net profit as a percentage of net worth worked out at 12.83 per cent compared to an average of 5.94 per cent for the others. Ergobank was also able to distribute a dividend of £1.54 pe rshare or 14 per cent on the nominal value per share and has announced a dividend of £2.16 per share for 1977.

Total bank credits increased by 23.9 per cent in 1977, compared with increases of 24.9 per cent in 1976 and 23.6 per cent in 1975. Bank credits to the private sector went up by 25.5 per cent in 1977, the highest increase in the last 20 years. As in previous years, credit to manufacturing increased much more rapidly than production and investment activity in that sector. Long-term loans for investment financing increased by 20.4 per cent in 1977, while short-term credit to manufacturing grew by 25.4 per cent, sufficient to meet working capital requirements. Bank credits to agriculture were also particularly high, while credit to trade increased at a slower rate than in 1976.

Target

In order to bring the rate of inflation down to the Government's target of 10 per cent this year (from 12.1 per cent in 1977), the monetary authorities have decided to hold total credit expansion to the private sector at roughly 18-20 per cent and the growth rate of currency in circulation at around 16 per cent. These increases are considered adequate to support the 5 per cent rise in gross domestic product envisaged by the Government. As a further measure to reduce liquidity, banks may no longer extend to individuals personal loans exceeding 100,000 drachmas. Previously the ceiling was 150,000 drachmas.

To encourage the financing of productive investment, the authorities have approved credit and investment programmes by investment banks for the current year totalling 11bn drachmas, of which 9bn are intended for financing industrial investment.

Furthermore, 11bn drachmas out of funds expected to be mobilised through commercial banks will be earmarked for industrial investment, while the Agricultural Bank's lending programme provides for a 28 per cent increase in new long-term loans for financing investment in agriculture. (The Hellenic Industrial Development Bank is raising an eight-year $10m loan directly from Banque Bruxelles Lambert SA and Banque Internationale à Luxembourg SA.)

The new investment incentives being enacted, plus expanded trade with the Middle East and expected accession to EEC, should contribute to a recovery in industrial investment. When investment begins to pick up, then, the authorities suggest, certain moderating restraints should be placed on

Xenophon Zolotas, Governor of the Bank of Greece: "Banks, under the pressure of abundant liquidity, have relaxed the criteria applied selecting their loans."

housing construction. Although contributing to the national income and particularly to employment, housing construction has also become an unwelcome source of inflationary pressures.

Meanwhile, certain measures were taken by the Ministry of Commerce recently as an incentive to raise more funds through the capital market. In accordance with these measures, at least 35 per cent of net profits must be distributed as dividend each year by companies whose shares are listed on the Athens Stock Exchange, instead of 30 per cent as previously. In case no dividend is distributed, a decision to this effect will henceforth require the consent of 85 per cent of shareholders instead of 75 per cent.

At least 25 per cent. of all ordinary shares of companies whose shares are listed on the exchange must be made available for negotiation. This minimum is raised to 30 per cent in cases where the share capital of a company listed is 500m drachmas or more.

Pension and insurance funds as well as other institutions may invest part of their reserves in mutual funds, following permission from the government's Currency Committee. Every person insured with such funds will enjoy a 1,000 drachmas tax rebate on dividend received from such investment.

By Our Athens Correspondent

Gulf States show two-way growth

THE PAST year has seen some remarkable developments in the financial fortunes of many oil-exporting countries. As a group they became net borrowers in the international markets for the first time in the third quarter of 1977, according to the Bank for International Settlements. Deposits with BIS-reporting banks amounted to only $400m in July-September, while borrowings reached $2.2bn. (Overall, of course, OPEC deposits still outstripped their borrowings.)

This reversal of the normal trend in the oil-exporting States was repeated in the last quarter of 1977. In the year as a whole, the BIS reported, these nations' recourse to the reporting banks was at $11.3bn, the same size as that of the non-oil developing countries.

At the same time, OPEC deposits with the international banking system have continued to slow down. At $13.4bn they were only marginally higher than those of the non-oil developing countries — a development which, the BIS notes, "scarcely anyone would three years ago."

During 1978, the OECD has predicted, borrowings by the oil-exporters could establish a new record of some $8-9bn, as these nations embark on costly development projects. OPEC borrowed $6.3bn in the medium-term market last year. Iran and Venezuela, with several major loans under their belts, accounted for more than half this, and these two countries, together with Nigeria, will continue to make significant use of the international capital markets in 1978.

Tempo

More interesting, however, is the rise in tempo of borrowings in the Gulf States—where the hard core of the OPEC surplus is situated. Last year these countries' recourse to medium-term bank credits—at about $1.75bn—rose faster than anyone's in OPEC. This year, the OECD estimates, their demand for funds will probably be lighter, though still substantial.

The advent of a far wider range of international borrowers from the Gulf countries has paralleled the emergence of several local banks and investment companies as important managers and lenders of syndicated credits, as well as greater use of local currencies and an increasing variety of instruments.

A whole series of "firsts" has been registered in the past 12 months or so, among them the first Kuwaiti dinar certificates of deposits (CDs), the first major Kuwaiti dinar syndicated credits, the first major promissory note issues in Kuwaiti dinars, the first syndicated credits in Saudi riyals, the first Bahraini dinar bonds, the opening of the first genuine market-maker for international securities in Kuwait—the Arab Company for Trading Securities (ACTS)—the first floating rate CDs in Kuwaiti dinars, the first floating rate CD in dollars done on the Bahrain market and the first international borrowings by private sector entities from Saudi Arabia and Kuwait.

Spread

International bankers have had acronyms such as Sibor and Bibor—the Saudi and Bahrain inter-bank offered rate respectively—added to their vocabulary, as deals have started to be done on a basis of a spread above these rates, just as Euromarket deals are done on a spread above London's rate, Libor.

The general liquidity among banks locally and internationally has contributed to the growing use of Gulf currencies in international lending operations. Increasing sophistication among bankers in the Gulf, particularly Kuwait and the offshore banking units (OBUs) in Bahrain, has provided the framework for this.

The Saudi riyal is making more and more appearances in international lending, despite the ambivalent attitude of the Saudi authorities. The Saudi Arabian Monetary Agency recently sent a letter to certain international banks asking them to restrict their use of the currency in their offshore lending. It may have some effect—most big banks do not want to upset the richest central bank in the world—but other factors will play against it, especially the Saudi's own insistence that all contracts awarded in the Kingdom be paid in riyals.

This requirement, together with the strict reserve requirements imposed on banks operating in Saudi Arabia, has encouraged the growth of Saudi riyal activity offshore, especially in Bahrain. It was from here that the local affiliate—BAII (Middle East)—of the Paris-based Arab-European consortium bank Banque Arabe et Internationale d'Investissement arranged the SR 300m floating rate loan for Redec, the company owned by Saudi entrepreneur Ghaith Pharaon, earlier this year.

From Bahrain, too, Banque de l'Indochine et de Suez lead-managed a SR 50m deal last year for the Saudi firm Amiantit, with syndication among the Bahraini OBUs. Earlier this year BAII also arranged a SR 100m five-year loan deposit for Banco Nacional de Obras of Mexico. Funds were provided by BAII and Saudi and Kuwaiti banks.

But Saudi banks are also starting to arrange such Saudi riyal financings. National Commercial Bank and the relatively new Saudi Investment Banking Corporation have both emerged recently as lead managers in deals, NCB in an interesting bond issue for the Korea Exchange Bank.

The Kuwaiti dinar bond market has been enjoying a new boom, Mexican and Finnish borrowers being the latest to have recourse to it. The quality of the market has improved since ACTS began operating, and a triple-A name is being predicted to approach the market for funds very soon.

To absorb some of the excess local liquidity, interest local investors in longer maturities and provide banks with a better base for medium and longer term lending, a number of Kuwaiti banks have issued CDs since last autumn. The first tap issue was for the Industrial Bank of Kuwait, the first tranches issue for the Gulf Bank.

The maturities on the CDs have been stretched out to three years, and the first floating rate CD—KD5m for the Kuwait Real Estate Bank—has made its appearance. Partly as a result of the growth of CDs, Kuwaiti banks are becoming more active in floating-rate syndicated KD credits, a number of which have been completed for important local clients.

Nevertheless a number of major companies from the Gulf have been attracted to the Eurodollar markets for funds. The Emirates have been particularly active in the last few months. Arabian Development Corporation of Dubai raised $20m through Interunion Banque, BAII, Banque de l'Indochine Credit Commercial de France and UBAF Fincancial Services at the begining of the year. The proceeds of the loan were to go towards construction of executive homes in Dubai.

Later the Dubai Aluminium Company, Dubal, announced a $25m credit through a syndicate led by Allied Arab Bank, the institution formed last year from the ashes of merchant bankers Edward Bates.

Members of the ruling families in the Gulf are also proving ready takers of Euro-funds as they finance their own private projects, usually in the property field. One of the biggest such loans so far has been the $19m credit arranged by the Abu Dhabi Investment Company for Sheikh Surour, a cousin of UAE President Sheikh Zayed. The funds are earmarked for an international trade centre in Abu Dhabi.

Sheikh Mohammed of Dubai, who is related to the Ruler, is borrowing $16m over seven years at $2\frac{1}{4}$ per cent above Libor through a group of banks led by National Bank of Abu Dhabi. The purpose of the loan is the rebuilding of the gold souk at Deira in Dubai.

Dubai has traditionally been the most active of the borrowers among the Emirates, the Ruler having already taken large amounts from the international markets for major projects like the dry dock and aluminium smelter. Now Dubai's richer neighbour, Abu Dhabi, is starting to tap the markets for its major hydrocarbons projects. Together with Qatar, Bahrain and the United Arab Shipping Company, owned by six Gulf States, it is setting new norms on terms for Arab borrowers.

Abu Dhabi Gas Liquefaction is raising $100m at a spread above Libor starting at [illegible] per cent. Qatar Steel is borrowing $100m over ten years also starting at [illegible] per cent. UASC is raising a similar amount on like terms, except that the maturity is eight years. Bahrain National Oil is getting $60m over seven years starting at [illegible] per cent. Emirates Telecommunications — majority-owned by the United Arab Emirates Government — is paying slightly more for $100m over eight years: [illegible] per cent rising to [illegible] per cent.

Batch

The arrival of a whole batch of Gulf borrowings on the market at rates on a par with those obtainable by prime European borrowers has coincided with rising aggressiveness on the part of houses such as Abu Dhabi Investment Company (ADIC), Kuwait International Investment Company (KIIC), Gulf International Bank (GIB) and National Bank of Abu Dhabi in seeking to lead-manage Eurodeals for local clients.

ADIC's competitiveness is remarkable since it was formed only in February 1977, with a 60 per cent stake from the Abu Dhabi Investment Authority. Already it has clinched deals for a wide range of borrowers, ranging from Hungary to Mexico, as well as for more obvious clients such as Abu Dhabi Gas Liquefaction, Qatar Steel and Emirtel.

Gulf International—owned by the seven States including Saudi Arabia and Kuwait—has suddenly entered the limelight this year, after a couple of years of dormancy since its formation. It is involved as lead manager in the UASC, Qatar and Banoco deals.

Most of these newly emergent houses (KIIC is well established with Arab personnel) have recruited top syndication managers from U.S. and British banks and companies in London. That is one reason for the regularity with which their names are now appearing at the hea dof bank syndicates. But the governments behind GIB and ADIC must have taken decisions to channel more of their surplus oil funds into medium-term risks on the Euromarkets, as well as to build up local banking reputations and provide a framework for training their own personnel.

Brian Thompson

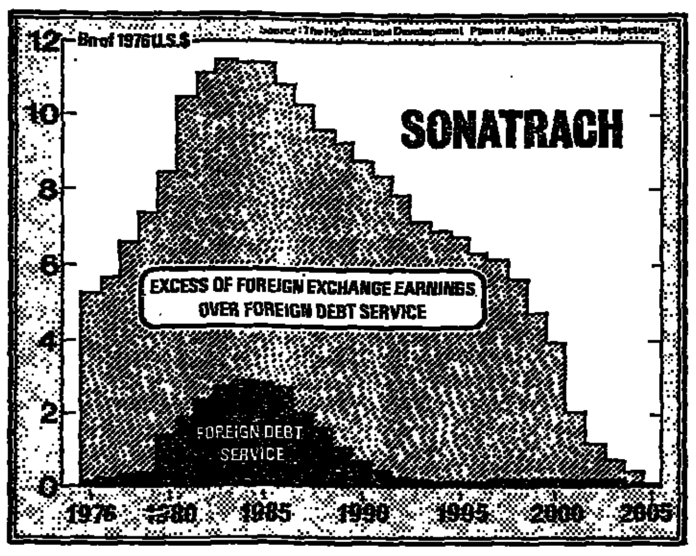
Algeria back as lead customer

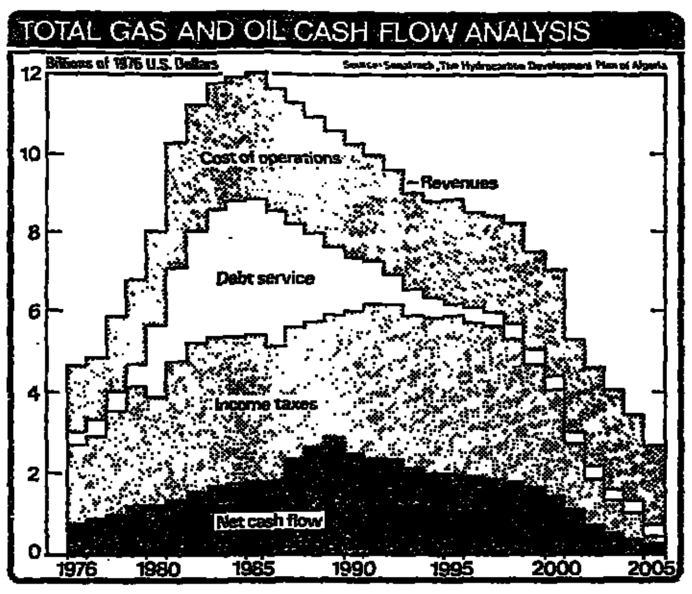
OVER THE past three months the borrowing pattern of Maghrib countries has "returned to normal." Algeria, which borrowed less than Morocco in 1976, has re-emerged not only as the major North African customer for the banks but as a major customer in the market as a whole. Morocco has borrowed much less in the first few months of this year than it had in the corresponding period in 1977. Tunisia meanwhile raises small amounts, a course of events which was widely predicted.

Algeria raised $500m., $643m. and $723m. in medium-term credits in 1975, 1976 and 1977 respectively. Now that the country's major gas liquefaction plant at Arzew, in Western Algeria, has come on stream and the 30-year Sonatrach-Bechtel projections on oil and gas production and financing in Algeria have been published, Sonatrach has re-entered the market in force—albeit, as has happened before with Algerian borrowers, in a none too orderly fashion.

Sonatrach intends to raise $3.1bn. in foreign loans this year, a figure which will rise to $3.2bn. next year and fall to $2.8bn. in 1980.

By the year 2005 it will have raised $17.3bn. in hard currency. About two-thirds of this figure will come in the form of export credit guarantees: the rest will be raised in the international financial markets, essentially in the form of medium-term credits.





The Hydrocarbon Development Plan of Algeria—Financial Projections 1976-2005—carried out jointly by Sonatrach and Bechtel Corporation, a major U.S. contractor for Algeria's gas liquefaction plant building—is based partly on figures of a DeGolyer MacNaughton report completed last summer. Report on Oil, Gas, Condensates and LPG Reserves of Algeria. The Sonatrach-Bechtel report was presented to bankers, officials and central banks throughout industrialised countries in April and May.

Help

There is no doubt it will help Algeria's massive programme over the next few years but it has not answered all the questions. For instance those banks which are called upon to finance the buying of LNG tankers are concerned that further delays (the Arzew plant opened 18 months late) will result in hefty lay-up costs. Other banks say that they are not worried by Sonatrach's future but feel the level of imports of foodstuffs into Algeria is too high for comfort. They would like to know more about the economy as a whole: thus they are not keen to participate in syndicated credits. As it is they have their work cut out to support their clients who have business in Algeria. In no sense thus are they boycotting the country, simply taking a more cautious line than some of their competitors.

Attention is also focusing more than in the past on the nature of the guarantees given by Algeria, in particular when the size of the credit is fairly large.

Banks are divided on the question of whether in a country like Algeria, where all major companies (and certainly all companies which borrow in hard currency) are State-owned, it really makes much difference whether they get a sovereign guarantee or one from the two leading banks, Banque Extérieure d'Algérie (BEA) and Banque Nationale d'Algérie (BNA), both of which can only provide guarantees in their own name. Only the Banque Algeriénne de Développement can provide a sovereign guarantee.

Those banks which insist that a sovereign guarantee is of higher quality have good reasons. One is that it makes the package look more attractive in the market. Secondly, it makes the bank's management's task with its board of directors, in the case of the U.S. banks, much easier.

Other banks are more relaxed about the whole issue: their lawyers are too. They argue that all is in the hands of the State in Algeria. If an Algerian borrower failed to pay, particularly Sonatrach, it is by no means clear that those banks which have loans outstanding under a sovereign guarantee would be at an advantage, and be repaid earlier than those which had loans outstanding with a BEA or a BNA guarantee. They also point out that any hiccup in repayments would have immediate consequences through the play of cross default clauses: supplier and export credits would dry up overnight.

Default

M. Seghir Mostefai governor of Algeria's Banque Centrale, argues strongly that in the event, which he regards as unthinkable, that an Algerian borrower should default, the arguments about the respective values of the guarantees which the different Algerian banks provide are legal niceties which mean little.

He argues that banks which know Algeria well view it as a serious partner which has always been scrupulous in its behaviour.

Some bankers who agree with this point of view still wonder why, since sovereign guarantees are so much of a sticking point for some banks, the Algerians do not give them what they want. But that would mean changing the statutes of the two banks which cannot provide sovereign guarantees—no easy task, particularly in a context where the banks are fiercely competing among each other.

As it is, none of the three banks has its hands on the hard currency: the Banque Centrale does. The nature of the guarantee thus hardly gives a greater assurance and the circle of this particular argument is thus squared.

Order

If the Algerians could introduce a greater element of timing into their deals and the order in which they appear in the market (four nearly at once, as at present, complicates matters) they would do wonders for their image. Despite the creation last year in Algiers of a committee to co-ordinate foreign borrowing it looks as if confusion will continue to reign.

However, this has not prevented Sonatrach, the Algerian state oil and gas company improving quite substantially the terms on which it can raise money in the international financial markets.

It has just given a mandate to a group of eight banks to raise $350m. The banks are Amrobank, Banca Commerciale Italiana, Bank of America, Bankers Trust International, Banque Européènne de Crédit, Crédit Lyonnais, Instituto Bancario San Paulo and Long Term Credit Bank of Japan.

This figure is made up of a $210m credit in two tranches: on the eight year tranche, Sontrach will pay a spread of 1⅞ per cent over the interbank rate, on the ten year tranche a spread of 1½ per cent. The shorter tranche will be syndicated in the market, the longer one among the eight co-lead managers and a group of co-managers which has not yet been completed.

The rest of the $350m is accounted for by a private placement of $140m. There will be different tranches with maturities running from 10 to 14 years and the interest rate is expected to be just over 10 per cent.

The terms on both the private placement and the credit do not provide a yardstick for prime Algerian risk today. Indeed, ENI, the Italian state oil company, will be contributing to the costs so that Sonatrach will in effect be paying less. Looking at the various other loans for Sonatrach currently being negotiated or in the market, this represents a marked improvement for the borrower.

This improvement is confirmed by the long maturity on one of the tranches of the credit, the longest ever obtained by Sonatrach in the current cycle.

Of the eight banks involved in the club deal, two are Italian, which is not surprising as the funds being raised will help finance the $3bn trans-Mediterranean gas pipeline from Hassi R'Mel, in the Sahara, to Bologna, in northern Italy. Italian export credits for Sonatrach worth over $500m and earmarked for the same project are currently being negotiated.

Credit Lyonnais is co-ordinating the whole operation, while Bank of America is running the books.

Morocco should need to borrow as much this year as last, in view of its worsening balance of trade and the low price fetched by phosphates, its main hard currency earner, which is expected to continue this year. The Moroccan phosphate company OCP borrowed $300m. in February 1977, a further $200m. in September (though much of that was made up of French export credits) and is back in the market for more money. Though the amount of that loan has been increased, its unrealistic pricing (⅞ per cent over Libor for 8 years) has led to many banks turning down offers of participation.

The $300m. loan for the Kingdom raised last December was a success and Morocco has succeeded in raising money on lower spreads than Algeria so far. But the dive to ⅞ per cent could hit future loans, especially if economic conditions in Morocco continue to deteriorate.

Tunisia had a successful maiden voyage into the markets last December when it raised $125m. for seven years on a spread of 1½ per cent throughout. Since then it has raised some smaller loans on cheaper terms. The extent to which the country will want to tap the market is unclear. Indeed the ambitious development plan launched last year gives little indication of real needs. In any case it would be a flawed yardstick, as few in Tunis believe the high figure of investment it quotes as a target can possibly be met in present economic circumstances. The country is widely expected to raise at least $100m on a spread of less than 1 per cent in the next few weeks.

Francis Ghilès

LATIN AMERICAN BALANCE OF PAYMENTS

($m.)

	Exports of goods (fob)		Imports of goods (fob)		Visible balance		Service account		Trade balance		Net payment of profits and interest		Current account balance		Movement of capital		Balance of payments before compensating factors	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Latin America	43,253	52,645	43,050	47,608	203	5,037	−3,735	−4,094	−3,532	943	−6,982	−8,997	−10,145	−7,633	13,614	13,703	3,469	6,070
Oil-exporting countries	13,653	14,675	10,010	12,790	3,643	1,886	−1,565	−1,878	2,078	8	−411	−351	1,482	−483	−954	562	528	79
Bolivia	568	650	562	670	6	20	−87	−117	−81	−137	−50	−92	−128	−224	184	273	56	49
Ecuador	1,296	1,526	1,060	1,500	236	26	−182	−244	54	−218	−200	−254	−132	−457	318	519	186	62
Trinidad and Tobago	2,370	2,300	1,844	1,770	526	530	−27	−17	499	513	−266	−238	223	264	38	131	261	395
Venezuela	9,419	10,200	6,544	8,850	2,875	1,350	−1,269	−1,500	1,606	−150	105	233	1,519	−66	−1,494	−361	25	−427
Non-oil-exporting countries	29,600	37,969	33,040	34,818	−3,440	3,151	−2,170	−2,216	−5,510	935	−6,571	−8,646	−11,627	−7,150	14,568	13,141	2,941	5,991
Argentina	3,895	5,300	2,784	3,396	1,111	1,904	−69	−39	1,042	1,865	−450	−484	616	1,405	303	300	919	1,705
Barbados	74	75	195	220	−121	−145	55	52	−66	−93	−4	−6	−57	−86	37	86	−20	
Brazil	9,988	12,500	12,282	12,100	−2,294	400	−1,780	−1,922	−4,074	−1,522	−2,248	−2,975	−6,316	−4,492	8,629	7,000	2,313	2,508
Colombia	2,390	3,300	1,676	2,100	714	1,200	−140	−219	574	981	−293	−329	332	682	278	144	610	826
Costa Rica	589	770	696	840	−107	−70	−34	−47	−141	−117	−76	−99	−206	−205	271	312	65	107
Chile	2,077	2,173	1,412	2,090	665	83	−278	−281	387	−198	−357	−368	24	−560	238	510	262	−50
El Salvador	751	1,250	646	865	105	385	−72	−95	33	290	−42	−61	18	256	66	50	84	306
Guatemala	794	1,170	905	1,100	−111	70	−35	−57	−146	13	−66	−97	−6	96	217	100	211	196
Guyana	272	275	330	320	−58	−45	−56	−60	−114	−105	−20	−24	−136	−130	33	95	−103	−35
Haiti	111	140	158	175	−47	−35	−25	−27	−72	−62	−7	−9	−48	−38	59	48	11	10
Honduras	403	525	427	530	−24	−5	−42	−51	−66	−56	−56	−76	−118	−12	157	190	39	62
Jamaica	660	760	792	730	−132	30	−61	−37	−193	−7	−116	−139	−307	−126	47	96	−260	−30
México	3,977	5,250	5,843	4,967	−1,866	283	477	715	−1,389	998	2,258	−3,139	−3,506	−2,001	2,521	2,251	−985	250
Nicaragua	542	656	498	680	44	−24	−47	−67	−3	−91	−73	−90	−72	−173	95	183	23	10
Panama	254	300	765	840	−511	−540	369	363	−142	−177	−57	−218	−210	−407	179	407	−31	—
Paraguay	181	300	230	300	−49		−38	−63	−87	−63	−13	−15	−99	−59	135	156	36	97
Peru	1,361	1,735	2,100	2,095	−739	−360	−236	−205	−975	−565	−275	−337	−1,232	−883	911	831	−321	−52
Dominican Republic	716	880	764	820	−48	60	−121	−129	−169	−69	−88	−103	−222	−136	233	150	11	14
Uruguay	565	610	537	650	28	−40	−37	−47	−9	−87	−72	−77	−82	−165	159	232	77	67

Sources: 1976 IMF; 1977 UN Economic Commission for Latin America.

One of the best bets

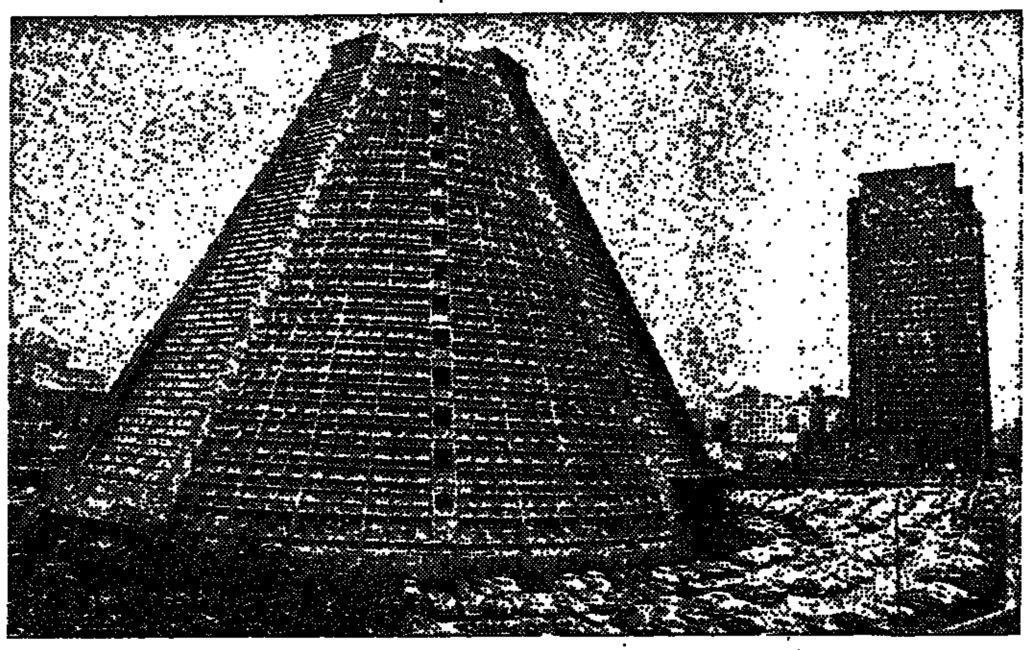
LATIN AMERICA was one of the bankers' best bets last year if the statistics are to be believed. While much of the rest of the world was still plunged into a recession or was trying to ease its way out of it, Latin America grew, and indeed grew faster than in either of the two preceding years—by 5.2 per cent in 1977 as against 4.4 and 3.2 per cent in 1976 and 1975. At the same time inflationary pressures abated a little, from an average of 64 per cent in 1976 to a mere 45 per cent for the year 1977.

The region's trade did well. Though the volume of oil, the most important single export item for Latin America, sent abroad by the region fell, the receipts from oil sales were maintained. The physical volume of the rest of the region's exports was well maintained and their unit value on average rose by 19 per cent.

The region thus found itself in the happy position of enjoying a virtuous circle in which exports were buoyant, obligations to foreign bankers were able to be met, these bankers were content to renew or increase their lines of credit, growth rates were similarly maintained or increased and exports continued to find markets. Neither of the two great nightmares which plague the sleep of the Latin American economic authorities came to pass in reality.

Protectionism in the developed world which could have restricted the countries' opportunities of earning money from exports did not become an actual threat, though it remains a sword of Damocles hanging over the Trade Ministers of the region. Nor did the foreign bankers decide that enough was enough and start to withdraw their loans. Finding it difficult to lend in the developed world they were only too grateful for what they considered the good opportunities offered in Latin America. The balance of payments of the region ended more than $6bn in the black, more than $2½bn up from the previous year's surplus.

Within this overall norm there were naturally a number of very different national experiences. Some countries were able to raise hundreds of millions of dollars at a time—in the case of Venezuela and Mexico the figures were more than a billion dollars—while the more unfortunate countries, notably Peru, saw their access to the world's financial markets restricted as bankers took a poor view of their export prospects and their domestic economic policies.



Rio de Janeiro's new cathedral (left) with the National Housing Bank to the right.

The total inflow of capital to the region amounted to $13.7bn in 1977, roughly the same amount as was attracted in the previous year. Of that total more than half ($7bn) went to Brazil, a fact which pointed up once again the bankers' predilection with the prospects of the Brazilian economy and their approval of the economic line followed by successive governments since the military takeover in 1964. Massive as this inflow was, it was appreciably smaller than the $8.6bn which entered the country in the previous year.

Inflows

A long way behind in second place came Mexico where prospects of greatly increased oil earnings helped to sustain inflows at around the $2¼bn mark, slightly down from the previous year.

From Venezuela, the richest country of the region on a per capita basis, there was a net outflow of $361m, not a great worry in the capital Caracas, where the current figure for the international reserves is officially $8.22bn.

Peru attracted $831m in new capital but this was not enough to tide that country through the foreign exchange crises that are still besetting it. Similar stories can be told of Jamaica and Guyana.

When the history of the 1970s in Latin America comes to be told it may well be that 1977 and 1978 will stand out as the years in which there was a marked swing towards the politicisation of financial transactions in the region.

Evidence of this is to be found in a number of quarters. Most important perhaps were the travails suffered by the Inter-American Development Bank (IDB) in its dealings with the U.S. Administration. During 1977 the bank approved a record $1.8bn in loans, a figure 18 per cent higher than that of the previous year, and consolidated its position as one of the most important sources of development capital for the countries of the region.

As the year went by, however, the IDB came up against the growing insistence not only of the U.S. Government but also of the U.S. Congress that U.S. funds should not be made available to governments with bad human rights records. It also confronted the feeling on Capitol Hill that the U.S. would do better by making more of its foreign assistance available on a bilateral basis and not through the multilateral agencies.

As the U.S. is the major contributor to the IDB, as the Bank needed U.S. funds urgently for its replenishment exercise and as it professed it could not accept funds which bore limitations regarding the member governments they could be loaned to, this situation produced problems for the IDB. Despite a postponement of the closing date by which new money should have been paid into the Bank there was no agreement between the U.S. and the Bank, and Washington was deemed by the Bank to be in arrears with its contribution at the time the Bank held its annual meeting in Vancouver last month.

There seems little chance at the moment of this situation being resolved to everyone's satisfaction in the immediate future. The Congressional treatment being given to the U.S. Foreign Aid Bills is not such as would endear them to the Bank.

Fears among some lenders and borrowers that this sort of argument might spill over from the sphere of government relations with the multinational financial agencies to that of government relations with private banks were partially relieved during President Carter's recent visit to Brazil where he came out most strongly against any pressure being put on the private U.S. banks to lend to some countries but not to others. If Congress suggested such a thing, he said, he would most strongly oppose it.

It did not take Congress—or at least one very powerful voice within Congress—to make the suggestion. Congressman Henry Reuss, of the House Banking Committee, recently called for an inquiry into the way in which U.S. private banks had gone against U.S. Administration policy by giving the military junta in Chile the loans which the White House and the State Department had denied them in the multilateral agencies. It is clear that a number of U.S. legislators—not to mention interested political groups in Western Europe — will be exercising closer scrutiny of the international transactions of the banks operating from their respective countries.

Hugh O'Shaughnessy
Latin America Correspondent

Still grappling with inflation

THE AUSTRALIAN trading banks have operated under relatively tight monetary controls over the past 12 months. In fact they have been on a leash since 1975, with restrictions on rates of new lending and the amount of advances they can have outstanding. It is all part of the Federal Government's anti-inflationary policies. The Government believes inflation must be pulled back to manageable levels before any sustainable recovery from the now three-years-old recession can be achieved.

The banks are in agreement with the need to curb inflation, although most feel that there has been too heavy an emphasis on monetary load: in other words, the banks have been asked to carry more than their fair share of the anti-inflationary load.

Whether or not this is the case, the policies are now working. Two years ago, the inflation rate was running at more than 17 per cent. It is now around 9 per cent and likely to be at an annual rate of between 7 and 8 per cent by the end of calendar 1978.

The deceleration has been greatest over the past 12 months—at the end of 1976-77 inflation was running at an annual rate of 13.6 per cent.

The economy is still depressed but there are signs of increased economic activity: new capital spending figures are up and the latest production statistics, while patchy, indicate improved output in some key areas.

Company and provisional tax payments are made in the June quarter, resulting in a seasonal contraction in liquidity. This year there was considerable concern that heavy capital outflow in preceding months would result in the contraction turning into a severe credit squeeze. The Government maintained publicly that the liquidity rundown would be managed to ensure that the feared squeeze never happened, and in the event that proved correct. As part of the operation, the banks were told that during the run-down period they could lend "in response to genuine demand" beyond levels currently permitted of about A$100m a week.

The liquidity pattern should be smoother from June 1978 onwards as company tax collections will be made on a quarterly basis.

The cut in the inflation rate has been accompanied in recent months by falling interest rates. The Government has played a significant part in the rate movements through the manipulation of the long-term bond rate—the interest rate benchmark.

Trauma

Since October last year the long-term bond rate has been pulled back from 10.5 per cent to 9.1 per cent, and the Government's declared aim is to reach 8.5 per cent by December 1978. Corporate interest rates are starting to reflect this trend, although corporate demand, which has been almost non-existent for the past couple of years, is still weak. Long-term rates for solid corporate borrowers have come back from around 12 per cent a year ago to between 10 and 10.5 per cent.

The interest rate movements have not been without trauma for the banks. While the monetary authorities are concerned to see that any lowering of official interest rates takes place at a pace which is sustainable, there are obvious political attractions in lower rates across the board.

In December last year, with a national election looming, pressure was applied to the banks to reduce their borrowing and lending rates. The banks revolted on the question of lending rates. They maintained, with considerable justice, that they had been forced to carry the brunt of a previous mistiming on interest rates by the Government in February 1976. On that occasion the Government, through the Reserve Bank, lowered some bank overdraft rates. The banks can set their own rates on large overdrafts but the rates on small overdrafts are controlled.

In February 1976 the controlled overdraft rate was lowered from 11.5 per cent to 10.5 per cent and the limit for these loans was increased from A$50,000 to A$100,000, considerably widening the sphere of control over overdraft rates. The banks were led to believe that the Government would lower interest rates and were encouraged to lower other rates. One or two obliged temporarily, but the biggest trading, the Bank of New South Wales refused, arguing that the timing was incorrect. The Wales proved correct and the other banks were forced to restore their rates: however, the controlled overdraft rate stayed at 10.5 per cent. The banks had therefore been operating for some months on reduced margins and refused to co-operate. The Government desisted but tried again in February 1978. Keen for a boost in demand, the Government wanted interest rates on housing loans reduced, both to stimulate the ailing building industry and to boost consumer spending, and to reduce overdraft rates.

The banks again stood resolute, and after a few tense days, in which talks were held between reserve bank and trading bank officials, a compromise was reached in which interest rates on housing loans were reduced by 0.5 per cent, but the overdraft rate was untouched.

Another factor constraining the performance of the banks over the past 12 months has been a heavy flow of capital out of the country. From about September last year there was a surge in outflow as speculation built up that the Government would be forced to devalue the Australian dollar. The speculation was so intense that the Government was forced to mount a heavy programme of overseas borrowing. An original target of A$850m was set, but was doubled when it became apparent it would not be enough. Early in 1978 the Government announced that it was prepared to borrow whatever was necessary to shore up the official reserves and stave off a devaluation.

The borrowings have now passed A$1bn but in the past couple of months there has been a turnaround in capital account. More than A$700m flowed into the country in March and April, but even so the capital inflow for the first ten months of 1977-78 was only A$188m compared with A$1.1bn for the same period of 1976-77.

Bankers believe there has been a change of attitude overseas to the Australian dollar in the past couple of months, with foreign capital going into Australian fixed interest securities, including government bonds.

They are therefore hopeful that there will be a reasonable level of capital inflow in 1978-1979 to ensure there is sufficient liquidity in the system. This is important because the Government is having problems on the budgetary front.

Despite its best endeavours, the 1977-78 Budget deficit appears likely to come in at least A$500m above the estimate of A$2.2bn, largely because tax revenues have fallen short. In 1978-79 the most optimistic forecasts are for a minimum deficit of A$3bn. For the past couple of years the deficit has been mainly funded by sales of Government securities to the non-bank sector. This has been possible because of the almost non-existent demand for funds in the private sector.

However falling rates and improving signs in the economy are starting to stimulate demand. The danger is that the Government, with its increasing appetite for funds to finance the deficit, could create a crowding-out effect in the capital market leading to upward pressure again on interest rates and jeopardising the thrust of its economic strategy.

While the recent half-yearly profit reports from the banks showed solid growth, the main improvement came from their finance company offshoots. Banking activities were more restrained. Moreover, the financiers are not too sanguine about immediate prospects. They are having no trouble attracting funds but because of depressed demand are finding it difficult to onlend.

Looking ahead, the banks could face considerable changes. The government recently announced that it would undertake an inquiry into the capital market to see whether any changes in the system were desirable. There has not been a serious review of the Australian banking system for 40 years, despite the fact that banking operations have changed radically and there has been a marked growth of other financial intermediaries, largely because of the controls on the banks.

The merchant banks have done reasonably well from their money market operations because of the reduction in interest rates. In recent months there has been a surge in takeover activity which is keeping the merchant bankers busy, and most believe that it will continue for some time. Australian companies are becoming interested in expanding but are still reluctant to instal new plant, particularly as there is considerable excess capacity in the economy. The alternative is to expand through takeovers. Merchant bank executives report that there is now increasing interest being shown by companies in raising funds.

One area of possible change which vitally concerns the banks is foreign exchange.

The government has been studying the question of establishing a foreign exchange market and has received submissions from interested parties. The main question is whether foreign banks will be able to participate. The Reserve Bank is in favour of setting up a market, but the Treasury is opposed and is strongly pushing that if there are moves to establish a market, it be confined to the Australian banks.

James Forth

BLACK AFRICA

Towards local control

BANKING IN black Africa, like most other aspects of commercial and industrial life on the continent, is characterised by a gradual movement towards African control of African resources.

Since independence, Tanzania, the Sudan, Ethiopia and Somalia have all nationalised their commercial banking sectors and at the start of this year Mozambique finally moved to nationalise all but one of the remaining private banks in that country, and replace them with a second State bank.

Many other countries have moved cautiously towards a greater stake in the commercial banking sector, be it the State taking an equity role or the local private investor. The motive is understandable—to follow political independence by a measure of economic independence—and it is a motive accepted for the most part philosophically by the expatriate banks.

The movement towards Africanisation of the banking sector may have slowed somewhat in recent years, but that is understandable, given that many countries are still suffering the after-effects of the 1974 oil price rise and may simply not have the resources to buy into the commercial banking sector. Furthermore, in such hard times the accumulated expertise of the foreign banker can be a valuable asset.

Nevertheless the process does continue. This year it was Mozambique's turn to act. In 1976 Nigeria ruled that all foreign banks operating there would have to be 60 per cent locally owned, a situation which involved no drastic changes for the major commercial banks, in which Nigerians already had a 48-49 per cent equity stake.

With its great oil wealth, Nigeria may at present be something of a country apart in the African banking context, but as a trend-setter it may well point up the direction other politically centrist countries may take. At the moment it is the Left-wing States of black Africa which have moved most strongly against the foreign commercial sector.

Nigeria is also a trend-setter as regards the other emerging development in African banking—towards a more cosmopolitan banking structure than the one inherited at independence, when the foreign banks operating in each country were those of the colonial power. This largely holds true now for the "High Street" banks, but in the merchant sector there is now far more of a cosmopolitan flavour.

Together with Africanisation, and to some extent as a corollary of it, has gone increasing Government pressure on banks to adjust their lending policies to the State's economic targets. This can lead to a conflict of interests, for while it is only natural for these developing States to want to keep a close watch on the sectoral distribution of credit, banks will equally naturally be disinclined to lend to the weaker sections of the economy.

The provision of credit to rural smallholders is a case in point. A number of countries set targets for this but farmers' lack of capital assets and their land holding system, based on traditional usage and not legal documents, produce collateral difficulties.

State-aided or State-controlled indigenous banks can help out here, though some of them have difficulty in credit control and lending to the smallholder might increase their problems. Contrarywise, the indigenous banks can also help to tap savings in rural areas which the expatriate banks do not feel it profitable to enter.

Even in a country where land-holding is based on individual title deeds, there can be difficulties in the provision of rural credit. Take Kenya, for example. Here the Government has set the commercial banks a target of 17 per cent of their net deposit liabilities for lending to the agricultural sector. Yet by June last year they had only reached 11 per cent, though there are signs that the position may now be improving.

Rural credit is one example of politico-economic factors at work on banking in Africa, painted on a small canvas. Recent events in Nigeria and Zaire have shown them painted large.

Earlier this year, the Nigerian Government announced that it would be withdrawing all state funds from Barclays Bank of Nigeria and ordered a reduction in its foreign staff in protest at the bank's policy towards South Africa. It was the first major step to implement Nigeria's new policy of punitive action against companies dealing with South Africa.

The invasion last year of Zaire's Shaba province and the second rebel attack this month points up the effects of political instability on banking, for the two attacks have made it that more difficult for Zaire to meet the conditions for the new $220m credit being organised by an international banking consortium.

Even before the latest invasion, the word Zaire must have been engraved regretfully on the heart of many an international banker. Because of serious financial mismanagement, exacerbated by the sharp drop in copper prices in recent years, its official and commercial debts are estimated at between $2m. and $3m.

Zaire's debt scheduling problems and the two invasions of Shaba point up some of the reasons why black African states tend to be regarded as poor credit risks by the Euro-credit market.

A great deal of homework is now done by Euromarket lenders before they will consider committing funds to the continent, although they are still prepared to accept new borrowers that are politically stable and have sound economies.

Like all generalisations, this broad picture of banking in black Africa ignores extreme variations in local conditions. There is considerable variation in the extent to which central banks pursue an active monetary policy and wide differences too in Governments' attitudes towards debt servicing ratios. Some countries are simply run on extremely tight lines, others much more loosely with high debt servicing ratios and heavy recourse to suppliers' credits.

But one major difference should perhaps be mentioned—that between central banking structures in Francophone and English-speaking Africa.

Unlike the English-speaking countries, the former French colonies still maintain strong banking ties with Paris, having decided after independence to remain within the French franc zone. In return for French guarantees of the convertibility of the African CFA franc, the two central banks for West and Central Africa have to keep a large percentage of their foreign exchange holdings in Paris.

But here again, the last few years have seen some movement, at least symbolically, towards greater African control with the two Central Banks moving their headquarters from Paris to Africa.

By a Correspondent

Greater freedom for the banks

PARADOXICALLY, the internal problems such as the decline in consumer spending, high inflation, and depressed business activity which have bedevilled the New Zealand economy for the past 18 months have resulted in more freedom of operations and an easing of restrictions over New Zealand's trading banks. Indeed, Government control over the banks' activities has diminished to such a degree that the banks no longer find this a major inhibiting factor in their operations.

The most significant development last year was the freeing of interest rates, the relaxation of controls, and the raising of the rates for Government securities. These introduced a considerable amount of competition so banks are now able to compete for deposits to a greater extent than ever before.

As an example of the relaxation of controls, the Treasury bill rate just two years ago was only 2 per cent. Now it is 8 per cent.—still not high considering New Zealand's official inflation rate for the past 12 months of 14.6 per cent., but still a big improvement from a banking point of view.

Government efforts to stimulate the economy, particularly in the building and consumer sectors, also gave more scope to the trading banks. For a number of years New Zealand trading banks have been compelled to maintain a fixed ratio of their reserves in Government stocks. A proportion of these were in the Treasury bills with their low 2 per cent. yield. Last year the Government reduced the ratio so as to allow the trading banks to have more funds available for housing loans.

The building industry has been one of the worst hit by recession. Its troubles were aggravated by the tight Government monetary measures applied in 1976.

High house prices and a shortage of funds forced many home owners into costly second and even third mortgages. With the setback in the economy, home buying slumped.

Last October the Government moved to stimulate the building industry by allowing banks to lend more of their deposit funds for housing loans. By cutting the official reserve ratio by 5 per cent. the Government freed NZ$50m. specifically for the building industry. Banks are now taking some credit for easing the pressure on the demand for costly second and third mortgages.

Consumer spending in New Zealand slumped last year. Retailers and manufacturers were both overstocked. This in turn led to sudden reduction in orders, an industrial slowdown and rapidly increasing unemployment. The jobless figure is now the highest since the worst days of the 1930s.

Abrupt

The sudden cutback in retailing and manufacturing was even more abrupt because the situation had been cushioned for a time by consumer spending in anticipation of rising prices. The effects of the sudden halt in demand were felt first in the cities.

New Zealand's export prices for the 1977-78 season opened on a low note and added to the consumer slow-down. Weaker export receipts also meant continuing pressure on interest rates.

Last Dcember the Government paid a Christmas family benefit bonus in the hope of stimulating consumer buying. It has also relaxed some of the more stringent hire purchase requirements on household durables, motor cars and motor cycles.

Then in February this year came a 5 per cent. reduction in personal taxation. This will put NZ$200m. into circulation in a full year. These efforts to stimulate consumer buying did not at first have any great effect but later banks were given permission to increase their personal loan levels. This was of particular help to the building industry.

The Government has been anxious to get interest rates down and although as yet there has been no great movement in this direction there has been some easing. Some bank interest rates are down from 13 per cent. last year to 11 per cent. this year. A slight lowering of rates has been noticeable in the fringe and non-banking financial organisations.

With freedom to offer better interest rates for deposits, the banks have campaigned vigorously to attract more deposit money. As an indication of their success bank term deposits over the past year have gone up 30 per cent. Most of this has been at the expense of the fringe market. Some collapses among finance houses, including Securitibank, a non-banking organisation, also encouraged depositors to put their money into "safe" deposits.

In earlier years when interest rates were tightly controlled, big depositors could get 11 per cent. or 12 per cent. from non-banking organisations but only 5 per cent. from trading banks. Now, with banks able to offer 10 per cent. or even slightly more in a competitive situation, investors are not prepared to risk their funds for only a marginally better return.

Difficult

The major finance houses should continue to increase their business in New Zealand but the smaller operators will find life increasingly difficult. This will apply particularly to the solicitors' mortgage market which grew rapidly in New Zealand a few years ago.

Banks are now able to lend money on a much wider front. For a number of years the Reserve Bank has indicated which areas should receive priority in bank advances. This was generally in the farming and export industries. Now, however, the Government and the Reserve Bank want more stimulus in the consumer area. Whereas personal loans were formerly given low priority they are now far more readily available for manufacturing and trade purposes.

Despite this, business confidence has not picked up as much as might have been expected, so the demand from manufacturing and industry for bank advances is still sluggish. Many shops and factories are concerned to run down stocks before re-ordering.

The demand for credit has fallen substantially in the past year because of the decline in the economy. Growth of domestic credit is much slower than last year. The annual rate of growth for liquid assets—shown by deposits in banks and on deposit with finance companies and in stock and station agency deposits—was 13.2 per cent. at March 1978. In the previous year it was 20 per cent.

Another major development in the New Zealand banking scene last year was the entry by trading banks into the commercial bill market. Trading banks are now free to endorse or accept commercial bills—something which they were not previously allowed to do by Government regulation. The banks had only about six weeks' notice of their opportunity to operate in this new area and have been generally slow to develop this field.

The Reserve Bank indicated it did not want too much upheaval in the bill market and banks generally have tended to take up only new business. However, trading banks are confident that their dealings in bills will grow significantly over the next twelve months.

The Reserve Bank, which operates Government financial policy, itself bought some bills in March this year to ease the pressure on the money market at the time when trading banks were faced with the annual March tax drain.

Last year the huge outflow of funds from the trading bank system caused what one prominent banker has described as "chaos." The money outflow from the trading banks to the Treasury put a great strain on bank liquidity. To remain liquid last year the banks had to buy deposits at a high rate of interest. Some of these deposits had to go into the Government securities earning a much lower rate of interest, causing a loss to the banks on their operations.

This, and the banks' inability to find surplus funds for lending, pushed their own and non-banking finance houses lending interest rates high over this period.

This year the Reserve Bank moved to prevent this. As the money flowed from the trading banks to meet income tax demands the Reserve Bank put it back into the banking system on a daily basis. The banks had two months to clear it. Both the bankers and the Reserve Bank were extremely pleased with the way this operated this year.

Reform

New Zealand Bankers have joined with practically every other group in New Zealand, ranging from the trade unions to manufacturers, in advocating taxation reform. Various groups put the emphasis for reform in different areas, but all are united in the need for some alteration to New Zealand's high tax structure.

There is a particular clamour for some reduction in direct personal taxation. Over the past ten years the share of total tax received by Government from direct taxation has grown from 69 per cent. to 76 per cent., while the proportion of indirect tax has fallen from 31 per cent. to 24 per cent.

Tax penalties on overtime earnings and secondary employment are severely limiting production. The high personal income tax restricts savings while the relatively low proportion of indirect taxation stimulates spending on consumption. All these factors hinder economic growth.

The Opposition Labour Party is committed to some system of tax reform which it has not yet made public except to state it will include a big reduction in personal income tax and the introduction of some form of capital gains tax.

Some minor tax reforms are almost certain to be included in this year's budget due around about June, but it is unlikely that these will be more than a few minor steps which could be followed by a more comprehensive overhaul of the tax structure at a later date.

Confidence is slowly returning to the New Zealand business scene—mainly because companies have found that they can weather the economic storm much more easily than a year ago. However, the return in confidence is still not strong enough to show through to any real stimulation of the economy.

The Reserve Bank and other observers are reasonably optimistic about the prospects for an improvement in New Zealand's economic scene over the next 12 months.

Inflation, although still much higher than the Government would like—and indeed forecast it would be—is coming down. While the annual rate is still 14.6 per cent. the rate for the December quarter was only 2 per cent.

Less inflation is being imported from overseas and import costs themselves have declined, partly as a result of the fall in inflation overseas but more particularly because of reduced orders from New Zealand importers.

The lower demand for imports should continue. New Zealand industry still has considerable idle capacity which can cope with any renewed activity and production for some time ahead.

One of the biggest factors affecting next year's inflation rate will be the extent to which wage demands can be restrained. The Federation of Labour at present has an application before the Arbitration Court asking for a 14 per cent wage increase. The Prime Minister, Mr. Robert Muldoon, has already said this is far too high and that the economy cannot stand a wage increase of this size.

The balance of payments deficit, although still high, has been reduced from its previous high level. The current account deficit has declined each month this year. At NZ$510m in March last, it compared to NZ$992m in March 1975.

Borrow

New Zealand is still forced to borrow considerable sums to balance its books, but its credit worthiness is high in the international money market. Indeed the Prime Minister recently said that the main problem in raising overseas loans is in fighting off the would-be lenders. The monetary system and fiscal controls introduced last year to relieve the economic ills did not go unnoticed, and met with general approval from international financial experts.

Prospects for farm exports for this year are encouraging although there is a big worry over the future of lamb shipments to Britain and the EEC. If the EEC common sheep meat policy forces up the price of NZ lamb and restricts its entry this would be an economic disaster for the NZ industry, which provides more than 40 per cent of the country's export earnings.

There have been some calls for a further devaluation of the NZ dollar but all the signs indicate that this is unlikely, especially in an election year. The Prime Minister has reiterated on every possible occasion that there will be no NZ devaluation at this time.

Two of the biggest problems facing New Zealand trading banks in the year ahead are both domestic ones. The first is that of manpower. New Zealand recently introduced a new type of superannuation scheme which has induced a large number of senior bank staff to retire earlier than they would otherwise have done. This loss of experience, added to the relatively new trend in the turnover of lower grade bank staff, is creating problems for all trading banks. Last year for the first time, New Zealand trading banks experienced an industrial unrest with stopwork meetings, and threats of strikes by its bank officers.

The other major internal problem is that of profitability. The margin between deposit and lending interest rates is very fine. With original bank costs increasing through inflation, the banks have a squeeze on their margins. Bank charges to customers have not increased since 1967 and banks would like to put these up. However, they cannot do so without Government approval, and this is unlikely to be given this year. One result is a very stringent effort by all trading banks to become more efficient, to keep a tight control over overheads and to woo the smaller investor.

Dai Hayward
Wellington Correspondent

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Problems of excess liquidity

THERE WAS considerable hope that banking and credit policy in India would receive fresh orientation when the new governor of the Reserve Bank, Dr. I. G. Patel, took over this key post late last year. There was the problem of correcting the distortions in the banking system introduced during Mrs. Indira Gandhi's Emergency rule. There was the hope that the Janata Government's new policies of promoting rural and small-scale industry would get due attention from the banking system. And finally, the established corporate sector hoped that its long lament for quick credit on less onerous terms would be answered sympathetically so that the investment climate could be improved and the prolonged recessionary trends eliminated.

Perhaps it is too early to pass judgment on Dr. Patel and perhaps it was too much to hope that this distinguished economist would be able to galvanise a system which has got used to operating in conventional forms and is unused to meeting new challenges through novel methods. Yet economists and commentators are clearly disappointed that, but for minor changes introduced last December to help agriculturists and a recent marginal reduction in interest rates, little has been done.

Partly, this is because excess liquidity continues to be a major factor in Indian banking. This has been sought to be checked by the Government and the Reserve Bank over the past many years by transferring to banks responsibilities which are not traditionally their own. Banks, for instance, finance food procurement at a time when the country has a grain surplus, so purchases from farmers are largely for stocking and tie massive amounts of funds. The Government has transferred to the banks the function of providing working capital to public sector undertakings. It has also taken heavy overdrafts for itself for budgetary purposes.

That the banks are flush with funds despite the additional tasks alloted to them is the result of the rapid increase in deposits. Between October, 1977, and March, 1978, deposits of scheduled commercial banks increased by Rs 16.8bn (£1.1bn) to Rs 216.8bn or by about 8 per cent. In the corresponding period of the previous year, deposits increased by Rs 15.7bn to Rs 179bn or 9.6 per cent. While the growth rate of deposits has tended to drop in absolute terms, banks have sucked in massive amounts.

In the same period bank credit to the commercial sector (not including food procurement, which accounts for a huge chunk) increased by Rs 12bn to Rs 127bn compared to Rs 10.3bn in the corresponding period of the previous year. Yet the deposit-credit ratio dropped marginally from 62 per cent a year ago to 59 per cent at the end of March, 1978. If food procurement is included, the credit-deposit ratio dropped from 75 per cent a year ago to 59 per cent at the end of March, 1978.

From April to October, 1977, the traditional "slack" deposits increased by Rs 79bn and other credit soared by Rs 5.1bn. Investment in Government and "approved" securities went up sharply by Rs 5.8bn and balances with the Reserve Bank rose by Rs 5.3bn. Such massive investment in the "slack" season was followed up by a Rs 7.7bn increase in banks' investments in government securities. The conclusion is unavoidable that banks are not able to use funds available to them.

Despite this, the norms being used to examine excess liquidity are traditional ones. This will obviously have to be corrected since the corporate sector insists that it is being starved of credit, that credit is still expensive, while it is widely recognised that the banks have not responded to the Government's policy of diversion of bank financing to the new "priority" sectors such as the "backward areas" of the country and rural industry. Concessions to banks and even directives from the Reserve Bank to promote this policy have not yielded results.

There is now a debate in progress on how far banks should serve the Government's socio-economic policies. This is difficult to judge in the absence of any clear-cut statement by the Government itself on what it expects from the banks, which have been forced to adopt ad hoc policies and are being pilloried as a result. Parliament's Estimates Committee recently said that the Government's view seems to be that there is "no need to define in detail the objectives and obligations of the nationalised banks" (the 15 Government-owned banks dominate Indian banking).

Indeed, the Estimates Committee reveals a great deal that is lacking in Indian banking. It rejects the view that there is no need to define the role of the banks since only if this is done can they be made accountable to Parliament. Other gaps noted are that the Government has no information on credit needs of the rural population, particularly different categories of farmers and artisans. This suggests that the Government's claim to make banking policy orientated to its socio-economic policies is somewhat hollow and that the Reserve Bank really cannot do credit planning of the kind needed.

Rapid

While in quantitative terms the spread of banking in India has been rapid—the number of branches opened during the two years ended June 1977, was 6,704 against the target of 5,000 —the Committee points out that *the banks had outstanding* licences for 3,004 branches at the end of June 1977. This suggests that branch expansion could have been even faster, particularly in areas which are clearly "under-banked."

That large areas are "under-banked" is clear from the finding that as many as 544 community development blocks had no banking facilities, the situation being particularly bad in such large rural states as Madhya Pradesh, Bihar, Uttar Pradesh, Orissa and West Bengal. The Committee also finds that in the 237 districts identified as industrially backward, the ratio of advances extended in these districts compared to all India credit slipped from 14.3 per cent in June 1974, to 13.6 per cent. in June 1976.

Noting that the credit-deposit ratio in the rural areas at the end of December 1976 was less than half that of metropolitan areas, the committee has called upon the banks to identify the economic and industrial potential of backward and rural areas "in conjunction with the state authorities and assist them in availing of credit facilities in larger measure to implement suitable development schemes." This unconventional recommendation is a recognition of the belief that bank credit can only follow development and not initiate it. Many economists have pointed out, however, that in certain favoured regions, banks have extended development credit. They say that, at a time when the banks face a resources glut, a corrective reallocation of credit to rural areas could be achieved without adverse effects on credit availability to the commercial sector.

In any case, the government has now asked commercial banks to concentrate in areas where banking facilities are inadequate so as to improve the flow of credit to rural areas where about 80 per cent of the country's population lives. The banks are also expected to select the centres for branch expansion during the current year in districts where the population per bank is higher than the national average.

Simultaneously, nationalised banks have been asked to increase lending to "priority" sectors, including 33 per cent. of their total credit to agriculturists. They have been instructed to ensure that 60 per cent of deposits mobilised in rural and semi-urban areas is deployed there, a move obviously intended to check the flow of savings from these areas to urban concentrations as has been happening. Yet this will not tackle the problem of the lack of capacity of India's rural population to absorb credit, a contradiction that the Reserve Bank will have to resolve in co-operation with the Planning Commission which is in charge of the country's overall development.

This new aspect of banking will have to be dovetailed into traditional ways of functioning, especially as the credit needs of industry and exporters will need to be met. With the recent import liberalisation, raising of the exemption limit for industrial licensing and lower interest rates, demand for bank credit from usual sources is expected to increase. This may help to tackle the current excess liquidity, but the basic issues of resources development can only be resolved by the Reserve Bank in consultation with planning authorities and departments of the government concerned. This is essential if credit policy is not to be just an arithmetical exercise in adjusting liquidity.

K. K. Sharma
New Delhi Correspondent

CHINA

Signs of possible emergence

AFTER 18 months of Chairman Hua's rule, China's antipathy to any form of borrowing except bank deposits and "supplier credit" for purchases of complete plant seems to be softening. Hitherto Peking has steadily reiterated the need for independence and self-reliance. These ideals have meant avoiding outright loans and most of the wide range of financing available in the West for would-be purchasers of capital equipment.

However, Peking has a massive programme of investment to put through by 1985, and much of it is dependent on the buying of imported equipment. This is essential if China is truly to modernise by the end of the century, as it hopes to do. The basis of the technological leap is to be laid now, and while Peking has at present a healthy bank balance, the scale of its needs are likely to outrun the $1.5bn-$2bn surplus observers believe it earned on trade in the last two years.

Reports from both Hong Kong and Europe suggest that the Chinese are rethinking their policies. While "self-reliance" remains the motto—and of course for China trade will always remain a fringe activity, though an important one since it can provide a short-cut to vastly increased production—there is a dawning realisation that some new form of borrowing could be advantageous. Peking, some observers believe, has also begun to recognise that the rate of inflation in the West is higher than interest rates.

Some bankers already feel that China is a distinct possibility as a candidate for a modest syndicated loan. Recently, Dr. Hans Kippenberger, managing director of the Banque Européenne de Crédit, said he thought China would be the next interesting borrower on the Euromarket. In the project-related loan sphere, there was a flurry of interest last year after the visit to Peking of the West German Foreign Minister, Hans-Dietrich Genscher, whose group was reportedly told that China would accept such loans. However, there have been no more moves in that direction.

The general view among bankers is that China's first step to a freer attitude would be to go for "buyer credits" rather than supplier's. Hitherto Peking has seemed to feel that supplier credit came with less odium attached since it was up to the supplier actually to do the borrowing. However, while adoption of the buyer's credit system would not actually make borrowing cheaper, it would certainly bring other advantages.

Wider

The Chinese would be able to see much more clearly what they were paying for, and they would have a wider range of potential suppliers to choose from. Exporters prefer buyer's credit because they themselves are less at risk and the possibility of arranging progress payments under it eases cash flow problems. These can be severe in the case of large contracts. Buyer's credit also spreads the payments over longer periods, an additional attraction. It ought to be possible for the Chinese to classify this and other forms of credit as "normal banking and commercial practices" which they have been using for some years.

It is the dependence on foreigners that borrowing implies that Peking so dislikes. It has some reason to do so after its experience with the Soviet Union in the 1960s, its "semi-colonial" past, and its observance of the fate of other countries which get into debt. It has not avoided borrowing altogether: besides the supplier's credit which it has been using since the early 1970s, it has bought grain on credit and its making and receiving of deposits on the London inter-bank market is well known.

Individuals and companies may now make fixed deposits with the Bank of China, and it has recently started issuing travellers' cheques. This latter activity is not seen as borrowing at all, however, since as the cheques are only available in Hong Kong, the lapse of time between buying the cheques and cashing them in China is likely to be short.

Even if Peking were to extend the range of credit facilities it uses, it would do so with the utmost caution. The Chinese are unlikely to land themselves in the same boat as Comrade Kim Il Sung of North Korea, who unwisely bought large quantities of industrial goods which he was subsequently unable to pay for.

Chinese exchange reserves are probably of the order of $2bn, adequate for a country with a gradually rising export trade, a variety of export items and no great seasonal fluctuation in its sales. Last December the Washington-based China Business Review estimated that on the basis of the past two years' trade surplus, the Chinese could reasonably buy at least $7bn of capital goods over the next three years. More conservatively, they could at a minimum afford to spend around $3bn.

The December, 1977, Bank of International Settlements figures bear out the healthy picture of Chinese finances painted by the trade statistics. Chinese deposits with reporting banks apparently totalled $2.4bn, while lending by banks to the Chinese was only $366m. While these figures are not complete since they exclude banks in

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Favourable loan prospects

GROWTH HAS been slow for Philippine peso loans despite reduced borrowing costs — but fast for dollar loans, thanks mainly to expansion of offshore banking operations and increasing availability of consortium banking facilities. Just the same, the thrust of monetary policy is still towards further lowering of loan interest rates. This has spurred a shift from lending to investment activity by fund sources. It is also providing stimulus to the development of a new market in bonds.

The local financial system has of late been generally liquid, mostly because of heavier than usual injections of external funds into the monetary stream. The principal sources are loan transactions of offshore banking units and drawdowns from syndicated foreign credits by borrowers in both the public and private sectors.

Another factor is the deliberate lending slowdown. Published statements of the situation of the country's top ten commercial banks in terms of loan portfolio show that their combined outstanding loans stood at 14.3bn pesos (the peso exchange rate to the U.S. dollar is 7.362) as of end-March this year, down by 51.2m pesos, or 0.36 per cent compared with 14.3bn pesos as of end-December last year.

As it has turned out, the ten banks shifted their attention from loans to investment during this year's first quarter. Their aggregate investments in bonds and other securities as well as in corporate shares or stock totalled 4.5bn pesos at March 31 last, an increase of 288.2m pesos or 6.53 per cent over 4.22bn pesos as of last December 31.

Waned

The January-March quarter is normally not a busy time for borrowing. Stocking up and re-ordering usually start near the middle of the second quarter. There are other factors depressing loan demand. One of them involves finance companies, which used to be among the biggest borrowers. Their aggressiveness has waned after a high incidence of repossessions and debt write-offs in their consumer appliance and motor vehicle financing operations.

Another factor, this time on the lending side, is the lowering of loan interest ceilings which took effect last January. The central bank, by declaring basic money costs as effective rather than nominal, has limited the room for manoeuvre on mark-ups and other non-interest expenses charged by lenders on borrowers. The result, it seems, is that banks have increasingly turned to investing rather than lending as the more profitable activity—at least during the first quarter of this year.

The banks have reduced their deposit substitute holdings too, since the maximum yields of these money market instruments were also reduced by the central bank starting last January. Combined deposit substitute holdings of the 32-member commercial banking system dropped by 336.1m pesos or 3.15 per cent to 10.3bn pesos as of end-March this year, from 10.7bn. pesos as of end-December last year.

The same yield reduction factor has affected merchant banks, better known in the Philippines as investment houses. Combined deposit substitute holdings of the 12-member merchant banking system declined by 150.3m pesos or 4.79 per cent to 3.0bn pesos as of end-March from 3.15bn pesos as of end-December, while their aggregate trading account securities contracted by 65.1m pesos, or 19.09 per cent to 406.2m pesos from 341.1m pesos.

Despite, or probably because of, first-quarter trends influenced in large part by the early January interest rate restructuring, the monetary authorities last Monday reduced the central bank rediscount rate for export loan papers from 5 to 4 per cent—and while the central bank rediscount rate for food production loan papers was retained at 1 per cent, banks were required to cut their lending rates from 12 to 10 per cent per annum.

The resulting effective rates for loan end-users have thus been slashed to 10 from 11 per cent (including charges) in the case of exporters, and to 13 from 15 per cent (also including charges) in the case of food producers. In bringing down borrowing costs further, central bank officials say they hope to spur investment.

The monetary move could indeed provide a stimulus to one already developing trend. Data made available by the securities and exchange commission show that investments in new corporations as well as reinvestments in existing corporations reached 1.0bn pesos in January-April this year, a jump of 344.5m pesos, or [illegible] per cent over last year's four-month total of 6[illegible]m pesos.

The overall situation has also provided a start towards developing a bond market. Last week Bancom Development Corporation, the country's top investment house, initiated trading in convertible subordinated debentures issued by Paper Industries Corporation of the Philippines, the lone local newsprint producer. Bancom announced that it will later expand its new activity to issues of other prime corporations.

Early this week the central bank announced that it will sell by auction all Government securities under its portfolio starting late this year in line with the programmed development of a secondary market in such securities. Under tentative auction rules already drafted, the bank will be the wholesaler of Government securities which are to be retailed by various financial institutions. Bancom is one of those being considered for this purpose. The ultimate aim, say the monetary authorities, is to rationalise the different rates offered by Government securities.

Securities wholesaling is just one of the latest undertakings of the central bank this year. Another is direct foreign borrowing for local relending. Availability of consortium banking facilities is now being consolidated more and more in the bank instead of being fragmented among various public and private sector fund users.

Overseas fund sources seem to like it this way, judging from the way they have been providing accommodation to the central bank. Under its consolidated 1978 foreign borrowing programme, the bank had wanted to borrow $US250m in the first half of this year and another $250m in the second half. When a consortium of foreign banks led by Manufacturers Hanover Trust Company of New York (Mantrust) brought the issue to the market recently, there was such a rush of subscriptions that the entire $500m was arranged in just one package.

Firm commitments from the consortium members amounted to $384m—non-members took care of the $116m balance. Earlier this year the bank arranged a syndicated loan of $100m from a consortium led by Bankers Trust Company of New York, and a solo loan of $43m from Japan's Bank of Tokyo.

Easier

The loan terms are comparatively easier. The jumbo loan, so-called because of its size, from the Mantrust-led consortium carries an interest which is 1 per cent above Libor, with a maturity of ten years and a grace period of three years. The loan from the group headed by Bankers Trust carries the same interest, but with a shorter seven-year maturity. The loan from the Japanese bank is payable in ten years, also at 1 per cent above Libor. The central bank has indicated that the jumbo loan completes its borrowing programme for this year.

About half of the $643m made available to the central bank under the programme will be used to pre-pay existing obligations arising out of loans previously obtained by various borrowers at either higher interest rates or for shorter maturity periods or both. The remaining half will be for development financing: the central bank will relend the money to Government agencies and Government-owned or controlled corporations as well as to selected private corporations in which the Government has substantial exposure.

It has already decided to relend $75m to the State-owned Development Bank of the Philippines (DBP) and $68m to the State-owned Philippine National Bank (PNB). The allotments will come from the combined $143m loans arranged from the Bankers Trust-led consortium and from Bank of Tokyo. As sub-borrowers DBP and PNB will in turn relend the foreign credits to their own clients or the final end-users.

Private banks will have a piece of the action too. Under already approved guidelines they qualify as sub-borrowers. The preference in so far as access to funds is concerned is being given to borrowers engaged in priority enterprises—while the preference in so far as private relending outlets is concerned is being given to institutions engaged in long-term financing.

What is in prospect then is some brisk lending activity involving originally foreign currency funds. They will come at a time when offshore banking is beginning to hit its stride. In three months the 16 offshore banking units (OBUs) operating in the country built up their assets by 27 per cent to $961m as of end-March this year compared with the end-December level.

As to fund sources, $573m came from deposits by non-resident banks, $364m from deposits by resident banks, $24m from deposits by non-resident non-banks and others. As to fund applications, $467m was lent out to resident banks, $[illegible]m to non-resident banks, $26m invested in bonds and other securities. With $364m of total deposits generated from onshore sources and $583m of total loans given to onshore borrowers, OBUs have expanded their share of the local market for banking in foreign currencies.

Leo P. Gonzaga

CHINA

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Canada, Japan, Switzerland, Singapore and Hong Kong (except American banks), they reveal the main trend.

In tune with the pragmatism evident in every sector of the Chinese economy, and increasingly so in the Bank of China's operations, the parent bank, the People's Bank of China, has steadily rationalised its operations in the 18 months since the fall of the radicals. Last September an important conference was held in Peking, ostensibly to criticise the Gang of Four but in fact to reimpose control on the banking sector.

Under the Gang's rule, control of the money supply appears to have completely broken down, to the point where other currencies were being issued. The report did not give details, but had this not been so, it would hardly have been necessary to stress that "the People's Bank is the only currency-issuing organ in the nation."

The breakdown of authority under the Gang meant anarchy in the banking sector as much as in other areas of life. Anyone who wanted a loan could get it. Banking regulations were frequently broken. Too much money in circulation caused severe shortages and incipient inflation. Planning was disregarded and the Bank's control over enterprises, normally very strict, evaporated.

The breakdown seems to have been worse than in the Cultural Revolution of the late 1960s. The collapse of control meant soaring corruption and embezzlement, not in the bank itself but among its customers. Recent accounts in the Chinese Press and radio transmissions of extravagant feasts, opulent funerals and unscheduled construction of luxurious clubs and hostels for high officials indicate how the Bank's control had ebbed.

Last year the situation improved, with State revenue up 6 per cent on the planned figure, the first time since 1973. Numerous provinces reported enormous increases in revenue for last year. Savings also were up, and both increases should have boosted investment funds for the coming Long March to modernisation.

The importance of the People's Bank as a regulator of the economy has been highlighted twice recently. Once was at the September conference last year, when vice-premier Li Hsien-nien, fourth in the hierarchy and himself a former Minister of Finance, took part.

The second was at the National People's Congress in March this year, when the President of the Bank, Li Pao-hua, was ranked in the new list of Ministers forming the State Council. While the Chinese have previously explained privately that the bank was directly under the control of the Prime Minister, not the Ministry of Finance, this appears to be the first time that its importance and independence has been publicly acknowledged.

Li himself, now aged 73, is a former top official from Anhwei province who fell in the Cultural Revolution. He is the son of one of China's original Communists. More important, however, for the Bank, is probably his long-established association with Vice-Premier Teng Hsiao-ping, author of the famous remark, "It doesn't matter whether a cat is black or white as long as it catches mice." In view of that, pragmatism is likely to be the keynote of the operations of both the People's Bank and the Bank of China.

Colina MacDougall

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New Jersey's answer to Las Vegas

BY DAVID LASCELLES in Atlantic City

Gambling at the new Resorts international casino in Atlantic City, New Jersey. The State's legislation of gambling has ended the monopoly held for so long by Las Vegas and the State of Nevada.

HISTORY OF a kind was made for the U.S. this weekend in a large dimly lit room in a hotel in Atlantic City, a faded holiday resort in New Jersey.

At exactly 10 o'clock last Friday State governor Byrne snipped a ribbon and declared open 60,000 sq. ft of plushly decorated casino crammed with gaming tables, roulette wheels and slot machines. And as the crowds poured in through the doors, crushing security men in the rush, the gambling monopoly held for so long by Las Vegas and the State of Nevada was gone forever. For the first time, another State had legalised gambling.

Jingling their quarters and silver dollars, the small time gamblers — mostly female — raced for the one arm bandits. Others, patting thick wads of notes, settled into well upholstered chairs at the roulette and card tables. Wheels spun, cards flicked, dice rolled, as over two years of work, and tens of millions of dollars of investment began to pay off.

Carefree

There were big winners—and losers, too—over the weekend. But since it was the first time most of them had been able to gamble legally within an hour's drive of home, few people seemed to care. There were stories of roulette players down to their last dollar who clawed their way back up into the thousands, and others who were not so lucky. I saw a woman change a $100 bill into quarters to give her 400 pulls at a fruit machine.

Parents with children below admission age took turns to look after their offspring outside so they both could have a flutter. Two pickpockets were arrested, and several people benefited from the fact that croupiers had been trained in resuscitation.

It will be a weekend to remember. But since this is only the beginning, many people wonder whether New Jersey has done the nation a favour or a disservice.

Unsuccessful attempts to legalise gambling—which falls under State rather than Federal legislature—have been made in states envious of Nevada's monopoly for years. But New Jersey, which lies on the Atlantic seaboard between New York and Philadelphia, has pushed hardest because, among other things, it sees itself as a resort area (it calls itself the Garden State).

In 1974 the Jersey State constitution was amended to allow gambling to take place, but this was not followed up with the necessary detailed legislation.

In 1976, Resorts International, a U.S. company with gambling interests, took the plunge and bought the Chalfonte-Haddon Hall Hotel in Atlantic City, New Jersey's major resort perched on a long narrow sand dune connected to the coast by a three-mile causeway.

Surprisingly Resorts was not a Las Vegas company. Its 1977 revenues of $60m came almost entirely from casinos in the Bahamas, the closest gambling resort for most U.S. east coasters.

Resorts, which clearly wanted to break into the U.S. market, had made a bold move, since it was still not clear whether New Jersey would enact full gambling legislation. Moreover, the hotel was a large, decaying building with little to recommend it. And Atlantic City, once the lure for millions from New York, Philadelphia, Baltimore and other big inland centres was losing out to more glamorous

> "There were stories of roulette players down to their last dollar clawing their way back into the thousands, and others who weren't so lucky"

resorts that cheap air travel had put within people's reach. The city was beginning to look run down, and the famous Board Walk, or planked promenade, had clearly seen better days with its brash but tatty entertainment halls and abandoned hotels.

But Atlantic City's very plight worked to Resorts' advantage. The New Jersey Assembly was deeply concerned about unemployment there (which was the highest in the State — 20 per cent out of season), and the problems of urban decay which had driven away the more prosperous population and left it to the less fortunate. By the 1970s more than half the inhabitants were either black or Hispanic.

The State carried out a referendum on casino gambling at the end of 1976 which showed a majority of voters in favour, despite scare stories about the dangers of mobsters, prostitution and vice. And finally exactly a year ago, the State Assembly approved a 'casino gambling' Bill — by a small majority.

Meanwhile, Resorts had embarked on a programme costing $50m, to construct a brand new casino in the bowels of the Chalfonte-Haddon Hall (which it had meanwhile renamed the Resorts Hotel) and refurbish the rest of the building to accommodate guests and provide all the necessary facilities like bars, restaurants and — most important — security.

Resorts also trained hundreds of croupiers and dealers from scratch, being careful to produce a well balanced mix of race and sex to satisfy current equality of opportunity requirements. In fact almost half the croupiers are women.

However, the opening itself was almost delayed by last-minute wrangling over the precise terms of Resorts' licence.

The State authorities were anxious to preserve Atlantic City's image of a family resort, so they insisted that minimum bets be kept as low as possible. Resorts International, not surprisingly, was keen to attract the big gambler and wanted permission for high stakes. The result was a compromise with one-arm bandits which take anything from 5 cents to a silver dollar (a rarely seen, though widely available large coin with an allure reminiscent of stagecoach days). Roulette tables also take 50 cent minimum bets on numbers, less on "the outside" (red, black, even, uneven, etc.).

Bigger stakes are reserved for the gaming tables with a $20 minimum on baccarat, slightly less for blackjack and craps. Thus, although experts said that Resorts would not match Las Vegas in stakes, there is still scope for the bigger gambler.

Finally on Friday, Resorts threw its doors open to the public on a gala day that was marred only by drizzle and a group of ethnic minorities, members of whom claimed that they had been discriminated against in the job share-out.

The question now is, how far is New Jersey likely to go in allowing gambling to spread, and will other states follow? Will New York, for example, 100 miles to the north, start casinos of its own?

As far as New Jersey is concerned, the undoubted success of Resorts' investment—which is expected to gross $100m. this year—is bound to be followed up. At least two more casinos are due to open in Atlantic City within a year, and more will follow.

But the state is being extremely cautious. It will probably confine gambling to Atlantic City, and it has appointed a tough five-man gambling control commission backed by stiff laws to keep out organised crime, which it admits is a real danger.

Although the U.S. Press has carried reports about the New York mobs declaring a "moratorium" on Atlantic City until the picture there becomes clearer, they might find it hard to move in anyway.

Resorts' gambling hall has dozens of silver domes fitted to the ceiling containing hidden TV cameras which monitor every gambling table from several angles, and most slot machines as well. Security men in both uniform and plain clothes patrol the floor, and the entrances are carefully watched.

The background of every single one of the more than 2,000 people employed at the casino has been investigated, and no croupier gets a licence unless the authorities are certain he or she is "clean." In addition, the new law empowers the Gambling Commission to control not just the casino but also all the businesses which provide it with goods and services, to prevent pressure being exerted from outside.

Undesirables

And to discourage undesirables from opening up casinos, the law lays down in detail the kind of building in which a casino must be housed: it must be a hotel with at least 500 bedrooms, providing the full range of services. In other words casino operators must be prepared to put up several tens of millions of dollars.

Elsewhere in the country, states with similar ideas will be watching progress in Atlantic City carefully. These include other resort dotted states like Florida, or big business centres like New York, though in the latter's case a State Assemblyman said it would be at least 18 months before anyone could say whether gambling would reach the Big Apple.

But the nation clearly expects some action. When Resorts' licence finally came through last week, there was a rush for gambling company shares in Wall Street. For a day the most actively traded stock was Caesar's World Inc., of Los Angeles, which operates Caesar's Palace, one of the largest casinos in Las Vegas. Caesar's already has an interest in a site in Atlantic City.

Resorts, meanwhile, will enjoy a temporary monopoly on the east coast which will be closely compared to Las Vegas. Resorts claims that its gaming hall is bigger than any in Nevada, but it followed Las Vegas custom by designing the casino without windows or clocks to lull gamblers into a sense of timelessness. Anyone playing at the tables is also entitled to free drinks.

But otherwise, the style is different. Hardened gamblers over the weekend said it had none of the brashness or vigour of Vegas; instead the decor and gambling were too mild, they complained. But Las Vegas ended up by paying Atlantic City the highest compliment: it announced a counter-publicity campaign of its own.

Letters to the Editor

Aspects of devolution

From Mr. T. Dalyell, MP

Sir,—In his perceptive article "Scottish National Party on a slippery slope" (May 24) Ray Perman quotes Mrs. Margo MacDonald as saying "Tam Dalyell is right: devolution will lead to independence."

This prompts me to put a question to any of your readers who spend their working lives in the world of money and finance. Suppose you got yourself elected to the assembly at the High School in Edinburgh? During the processes of selection as a candidate, and election to what will certainly be called the Scottish Parliament, you will have made a host of promises—to undermise schools, build more homes, update hospitals, provide more home-helps, etc.

Within weeks of election it will become painfully obvious to you, not only if you are SNP but if you are Labour, Conservative or Liberal, that, dependent on a limited block grant from Great George Street, you cannot deliver your promises.

What then do you do? Wring your hands and say that you can do nothing? That will hardly satisfy your supporters.

No, whatever political colour you are, you would demand more powers in general and in particular more money from a parsimonious English Treasury to implement your campaign pledges. You would hardly be thought to be worth your salt if you did not.

In truth, is there any way in which you, as an assemblyman, could be satisfied short of full financial control and the disappearance of all those elements which distinguish "devolution" from the creation of a separate Scottish state?

Is it possible to have a subordinate Parliament in part—though only part—of a unitary state and expect it to remain stable?

Are not Mrs. MacDonald and I right from our diametrically opposed points of view" if an assembly is established in the High School is this not inevitably the end of the British state?

Tam Dalyell.
House of Commons, SW1.

Stop fighting old battles

From the Managing Director Sladen Partners.

Sir, — Professor Christopher Freeman's article ("Creating more jobs than the microprocessor destroys," May 24) seems much more concerned with the employment trends likely to be associated with the application of microprocessors than with their potential for creating better products and services. It makes me wonder for the umpteenth time what industry is for. Is it for producing more, better and cheaper goods and services or is it for providing employment? If for the latter, our efforts at modernisation, automation and raising productivity are inappropriate. If, on the other hand, we want improved goods and services, the likelihood that microprocessor technology will reduce employment (apart from changing the employment pattern) is irrelevant, though it is heresy to say so at present.

It is heresy because politicians, trade union leaders and other elected representatives call for employment opportunities for their voters believing that this is what their voters want. Their voters want, or at least say they want, employment because their forebears were persuaded of the moral value and necessity of employment when this was vital for the efficient operation of Victorian industry.

As soon as people feel free to say that what they want are goods, services and leisure, rather than attendance at a place of employment, those they elect will cease to pursue what no longer matters and will apply themselves to the pursuit of the real benefits that industry can provide, with less hypocrisy all round. Two problems will then have to be solved, for the majority of people: how to divorce the payment of wages from attendance at work and what to do with desired but unaccustomed leisure. Those problems are great, but not impossible to solve and I would rather see our generals make efforts to solving them than to devising strategies for fighting the battles of a bygone age.

G. Wittenberg.
231, The Vale, Acton, W.3.

Consultation in companies

From the Director, Personnel and Industrial Relations Division, The P-E Consulting Group

Sir,—In my experience, the majority of captains of industry actively wish to encourage the extension of consultation and communication in their companies. This desire is directed at both blue- and white-collar employees, whether they are members of a trade union or not. But you cannot build democracy (industrial or otherwise) on "empty bellies."

At the same time, most working people do not wish to make those decisions for which their managers are responsible and for which they are supposedly paid. People at work, however, do feel willing and are able to influence those decisions which surround the workplace: these are to do with roles, grades, responsibility, job content, layout, methods, working practices, new equipment, and so on.

If people are ordered to participate—or, heaven forbid, compelled to do so by statute—this can and does lead to disaffection and deterioration of relationships. Either co-operation with employee involvement is withdrawn, usually in pursuance of some gain by minority sectional interests; or else, middle management and supervision feel threatened or alienated, resulting in confusion or, worse still, sabotage of joint problem-solving initiatives.

It is not at all simple to avoid these and other negative factors (to which John Elliot refers in his lucid article of May 22). In order, however, to spread light rather than heat, there are at least four important ingredients for the successful development of employee involvement.

New consultative structures should be clearly separate from and outside the formal business organisation—which is there to make decisions. New arrangements must not interfere with or undermine the formal industrial relations structure—the vehicle for on-going negotiation and joint agreement. Any new departures must be compatible with the existing climate of relationships, attitudes, "mores" and history in each unique situation. Clear rules and terms of reference should define those subjects and task areas which are "legitimate" for discussion and joint treatment, making it clear that these new institutions are by nature developmental and joint problem-solving.

In this way, people are given a realistic and controlled measure of involvement without management having a revolution on their hands. Properly organised, this will preserve the authority structure of both the formal organisation and the industrial relations system. At the same time, it will dignify the individual in the job he is doing or planning to do by allowing his views to be heard in a constructive way through improved two-way flow of communication, information and understanding.

This process takes time—for which the White Paper allows. In due course, "bellies" will fill democratically with a corresponding increase in ability and experience, both of which are essential equipment in the boardroom.

R. C. Coke Wallis,
Park House,
Egham, Surrey.

Demonstrating technology

From the Managing Director, Stone-Platt Fluidfire.

Sir,—One is very encouraged to see the Government's massive support reported on May 25 for technological development that will successfully exploit coal by conversion to gas, oil and electric energy.

Justified as I am sure these projects are we trust that the Department of Energy is going to give equal support to developing similar efficient conversion techniques in industry.

Promising though the pressurised fluidised bed combustion project is, nobody will disagree that it will be five or 10 years before it will be producing electricity for industry. Atmospheric fluidised bed combusters that show very efficient conversion (typically 82-88 per cent, depending on size) are being developed now and small units are out on field trials. This technology may be exploited now, this year.

Industry that generally has very poor energy conversion equipment much of which is antique needs the encouragement to invest in modern equipment. The only way an industrialist is going to be persuaded to make such investment is by showing him similar equipment working in the industrial situation at reasonable cost.

Please, please can we have some grants towards the cost of demonstration plants that prove these technologies are viable today? British industry is a world leader in fluidised bed technology. Those companies in this field largely have had to look to the U.S. agencies for support of the development. It is a measure of their stature in the technology that some support has been forthcoming

The U.K. Department of Energy, however, should support British industry first on reasonably comparable terms.

Michael J. Virr.
Washington Street, Netherton,
Dudley, West Midlands.

Facts of life

From the Managing Director Parrin, Frost and Co.

Sir,—Eric Short (May 20) really must learn some facts of every-day assurance life.

If people were left to themselves without the help of a salesman, the sales of life assurance would be considerably smaller, possibly in the region of 10 per cent of current figures.

Savings of any sort should be encouraged both from the personal and national point of view. The life assurance salesman makes an important contribution to the welfare of the nation (and its widows!).

Life assurance is a poor investment short term, and for best value the term of an investment policy should be as long as possible up to anticipated retirement age. This is the ideal age for maturity, since it is the one time a person can be reasonably sure of a loss of income, and the maturing policy will be there to replace the loss. In the meantime, after the first two or three years, the loan value of the policy is available, if necessary, for such things as early retirement, children's weddings or children's house purchase deposits.

It is quite possible with certain companies, that the length of the term makes the difference from when the client can surrender the policy, which is what he says she remembers asking. All life assurance policies are front-end loaded—this is one of the reasons why they are a poor short-term investment. Experience dictates that one be extremely suspicious of a client's recollections of an interview seventeen months after the event, and it is surprising that Mr. Short wastes his sympathy on someone, however young, who confesses to signing documents she did not read and understand simply to get rid of the salesman.

R. Parvin.
Tudor House,
262, Northfield Ave., W5.

Bureaux de change

From the Marketing Manager, Chequepoint Services

Sir,—The letter by Sir Geoffrey de Freitas, MP (May 20) makes a refreshing and succinct contribution to the discussion on bureaux de change.

In contrast Mr. Rost's letter of May 25 purports to reply to our challenge that he produce evidence that some bureaux de change charge 20 per cent. His reply in no way provides evidence to support his original assertion. Instead he merely instances at great length particular cases in which Chequepoint apparently charges a 5 per cent. commission rate. Readers will no doubt be reassured to learn of a retail business operating on that sort of margin, if somewhat surprised to hear a Conservative MP adopt so censorious a posture over so little.

By way of general information, however, Mr. Rost should know that the clearing banks themselves offer considerable variations of rates. In particular Mr. Rost quotes the February rates of the Midland Bank. Mr. Rost should know, for example, that in February of this year the Midland was quoting a rate of Argentinian pesos 850 to the public, on the same day that its own subsidiary Thomas Cook was quoting pesos 1,300. A difference of over 40 per cent. between them! How did this escape Mr. Rost's attention?

As for your other correspondent Mr. Stibbe (May 16) it is quite impossible to take him seriously. He complains of references to himself in our letter of April 21. If he reads the letter, Mr. Stibbe will see there is no reference whatsoever to either himself or his business.

M. A. Jorden.
47, Old Brompton Road, SW7.

Today's Events

GENERAL
North Atlantic Treaty Organisation (NATO) two-day summit opens in New York.
EEC Energy Ministers meet, Brussels.
EEC Environment Ministers meet, Brussels.
King Khaled of Saudi Arabia continues visit to France.
Mr. Michael Foot, Leader of the House of Commons, addresses Hamilton by-election eve of poll meeting, Larkhall Miners' Welfare Hall, 7.30 pm.
United Nations special session on disarmament continues, New York.
Chinese agricultural mechanisation mission continues UK tour.
London Chamber of Commerce trade mission to Spain begins (until June 8).
National Association of Head Teachers' conference continues, Brighton.

COMPANY RESULT
Northern Foods (half-year).

COMPANY MEETINGS
See Week's Financial Diary on Page 43.

OPERA
Royal Opera production of Madame Butterfly, Covent Garden, W.C.2, 7.30 pm.
Glyndebourne Festival Opera performs Die Zauberflote, Lewes, East Sussex, 5.30 pm.

MUSIC
Verona Ensemble, conductor Brian Brockless, St. Bartholomew the Great, West Smithfield, E.C.1, 7.30 pm.
Marianne Boettcher (violin) and Philip Moll (piano) perform works by Dvorak, Brahms, Ravel, Bartok and Falla, Wigmore Hall, W.1, 7.30 pm.
Royal Philharmonic Orchestra and London Symphony Chorus, conductor Sir Charles Groves, soloist Heather Harper (soprano), in programme of Berkeley (world premier of Symphony No. 4); Britten (Les Illuminations); and Holst (The Planets), Royal Festival Hall, S.E.1, 8 pm.

EXHIBITIONS
Airmails from famous flights, Gibbons Gallery, 399, Strand, W.C.2 (until May 31).
The 62 Group (textile artists) summer exhibition, Commonwealth Institute, High Street, Kensington, W.8 (until June 18).
Anglo-Jewish silver, Victoria and Albert Museum, South Kensington, S.W.7 (until July 9).
Royal Academy summer exhibition, Burlington House, Piccadilly, W.1 (until August 13).
Josiah Wedgwood exhibition, Science Museum, South Kensington, S.W.7 (until September 24).

SPORT
Tennis: Surbiton tournament (1.30 pm).

COMPANY NEWS

Greater demand for EDITH services

AN INCREASE in its directors' investment powers is proposed by Estate Duties Investment Trust in the light of the greatly increased number of enquiries received this year from unlisted companies whose members are looking for sums of £1m. or more. If approved the trust would be free to acquire a holding in a company, worth up to 10 per cent. of the trust's portfolio at that time.

Lord Seebohm, the chairman, explains that it remains the directors' policy to restrict individual investments in normal circumstances to the 5 per cent. level and to syndicate larger requirements, but the existing limit appears unduly restrictive and does not cater for the occasional large application of exceptionally high quality.

In November the company issued 60,095 new shares in part consideration for a 28.6 per cent. equity stake in A. P. Burt and Sons and clearance has been obtained from the Inland Revenue for rollover relief to the vendors in respect of capital gains tax on the exchange of shares.

Two similar share-for-share issues are currently at an advanced stage of negotiation and several more are under consideration.

"The new provision is an important concession for shareholders in unlisted companies which wish to remain independent as for the first time, rollover relief can be obtained without selling control of the company," the chairman says.

"We have not relaxed our standards and do not intend to ask for Board representation when we invest."

A proposal to split the trust's £1 shares into units of 25p is designed to assist marketability and to bring it into line with most other investment trusts, he explains.

Net revenue before tax for the year to March 31, 1978, was up at £2.26m (£2.15m) and the net dividend is effectively raised to 8p (7p)—as reported on April 26. A one-for-ten scrip issue is planned.

Liquid funds at year-end were £2,302,000 (£1.46m) higher with cash at bank down from £180,097 to £97,692. The company invested a record £2.8m in 1977-78—more than £1m more than in the previous year.

would be in line with his statement in the annual report that the continuing businesses and other investments "should be transferred to a new company."

The full scheme cannot be implemented yet. "Until we know how much the compensation is going to be, we can't tie up the details," Sir John said.

He declined to comment on the suggestion that the parent company will be put into liquidation as a means of returning the surplus cash to shareholders. This method could ensure that the distribution is taxed as capital rather than income.

Signs of more growth for UniChem

THE RATE of growth and strength attained by UniChem, the UK's largest independent pharmaceutical wholesaler, over the last five years can only be maintained if it continues to receive support from members and is able to convert a reasonable number of non-members. The signs are clearly there that both will happen during the current trading year, Mr. Peter Dodd, the managing director, told the annual meeting.

As already known sales in 1977 were ahead 33 per cent. to £72.2m and taxable profit leapt 58.8 per cent to a record £3.29m. The basic rebate for members is held at 4 per cent but the total achievable rebate level has been raised to 10 per cent. Membership at year end had reached 3,230.

It is proposed to give members the option of raising their shareholding investment to a maximum £5,000. Interest paid is geared to the highest level of Bank rate effective during any year.

Mothercare to promote U.S. side

Mothercare is to start its first national advertising campaign in the U.S. in the autumn, Mr. Selim Zilkha, the chairman, says in his annual statement.

He says that sales in the U.S. so far have not come up to expectations, and resulting losses have been greater than budgeted. In the March 31, 1978 year the U.S. side contributed a £281,000 loss (£84,000 profit) on sales of £8.66m. (£3.17m.).

In the year just ended Mothercare opened 34 stores and plans to open a further 14 this year. In

February it published its first US mail order catalogue and distributed 350,000 copies. Capital commitments for this year total £0.71m (£1.17m).

The company bought into 110 stores in the U.S. in July 1976, and 70 per cent of its merchandise is now branded Mothercare.

Mr. Zilkha says that the early years in the U.S. are ones of trial and error. The group's general strategy is concerned with laying a solid foundation for the future. The computer programmes reproduced in the U.S. from the UK masters are now operational.

He says it is important that the difficulties of and risks involved in the U.S. market are not underestimated.

In Europe last year four new stores were opened and the Belgian mail order operation commenced. In the UK five stores were opened and two more resited.

For the year profit was £13.88m. After additional depreciation of £0.65m., a cost of sales adjustment of £1.96m, and a gearing adjustment of £0.74m., current cost profit is shown at £12.01m.

Meeting, 100, Old Broad Street, EC, June 22 at 11 am.

Swan Hunter nationalisation distribution

Further details of the distribution of Swan Hunter's nationalisation proceeds will be given with the interim report due to-day.

Sir John Hunter, the chairman, said yesterday that the proposals

Simons slumps to £5,530

AS INDICATED in the chairman's statement last year, pre-tax profits of Simons and Co., fruit and vegetable broker, for the 15 months to September 30, 1977, declined: the figure turning in at £5,530, compared with £103,430 for the previous year.

After tax of £35,920 (£65,391) and including a £26,180 deficit (half of which was due to the strengthening of the pound) from the Spanish associate company, a net loss of £30,390 (£38,039 profit) was incurred.

The loss per £1 share is given at 19.13p (15.08p earnings) and there is no dividend. Last year's payment was 5p net.

Mr. John Simons, chairman, reports that since the end of last year there has been considerable re-organisation in the company. The head office has been moved and the company has concentrated its storage and delivery base for deliveries to the Woolworth stores in one depot.

He says the two moves have meant considerable cost. On the other hand, the depot in Yorkshire can now be sold and negotiations are in progress at a price higher than the original cost, and future operating costs will be much reduced.

Turning to the current year, earnings have been reduced during the winter owing to the extremely low prices realised for home grown vegetables and potatoes. Although the volume of sales increased, the turnover was very low indeed. Since April more normal trading conditions have returned and the group is trading profitably.

It is too early to make a reliable forecast of the results for this year, says the chairman, but the combined effect of the loss on trading in the winter and the reorganisation costs will probably result in a loss. However, the economies resulting from the re-organisation and, hopefully, an absence of exceptional weather and trading conditions, make for brighter prospects from 1978-79 onwards.

Grampian a little uncertain

WITH OPERATING costs set to rise substantially in the current year and indications that the rate of growth in advertising revenue is tailing off, Mr. Ian M. Tennant, the chairman of Grampian Television, says he would not like to forecast, so early in the year, that the 1977-78 level of profitability will be maintained.

As reported on April 28, on turnover of £3.53m. (£2.74m.) pre-tax profit rose from £304,778 to a peak of £372,135 for the year to February 28, 1978, struck after an Exchequer levy of £53,000 (nil). Advertising revenue increased 28 per cent to £3.42m.

Mr. Tennant reports in his annual statement that the basic Levy threshold for Grampian is £250,000, a figure set in 1974 and which has been greatly eroded by inflation. The company believes that the threshold should be linked to the Cost of Living Index in the same way as the rental payable to the IBA, and on this basis, the present level would be about £500,000.

Operating costs rose considerably during the year and amounted to £3.11m at the year end. This trend is expected to continue with increases being particularly marked in the expenditure on network and local programmes.

Over the past 12 months, the company also spent over £200,000 on new equipment.

Members are told that in connection with the group's subsidiary, Glenburnie Properties, work is now under way on the construction of the three-storey office block on the Fountainhall Road site. The building should be completed in December, 1978 and a substantial part of the accommodation will be available for let.

Assoc. Sprayers gift instead of cash

Although Associated Sprayers is again passing its interim dividend despite a £30,000 increase in first-half taxable profit to £102,000, shareholders are to be sent a one pint hand sprayer as consolation.

Shareholders also receive a leaflet illustrating some of the group's products and a concessionary discount offer.

Directors say that because of the pressure of inflation combined with a relatively low cash flow they feel it would be unwise to declare a dividend.

Dividends totalling 2.47p net per 10p share were last paid in 1973-74, when profits totalled £189,000.

Sales for the February 28 period were £3.08m. (£3.01m.), and profit was after interest of £45,000 (£60,000), and is subject to tax of £53,000 (£37,000). For all 1976-77 profit was £139,000.

Directors say trading in the period was far from easy and sales volume was reduced.

But the pruning of its product range combined with severe operating economies provided an improved profit level.

In the past month the company has sold its subsidiary, EPIC, and when the divestment is completed £150,000 is expected to be released to working capital.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available whether dividends concerned are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Northern Foods, Tollemache and Cobbold Breweries.

Finals: East Midland Allied Press, Warnford Investments.

FUTURE DATES

Interims—	
St. John D'el Rey Mining	June 5
Smart (J.) (Contractors)	June 1
Finals—	
Anderson's Rubber	June 7
Bilton (Percy)	May 31
Burnett and Hallamshire	June 21
Cullen's Stores	June 5
Finlay (James)	June 6
Samuel (H.)	May 31
Sketchley	June 13
Westbrick Products	June 7
Wheway Watson	June 14
Whiteley (B. S. and W.)	June 1

Since March the group has made an "energetic" start to the re-organisation and a strengthening of its sales and marketing strategy. Other areas of operation are also under scrutiny.

Runciman warns of shipping loss

THE SHIPPING side of Walter Runciman and Co. can no longer ward off the effects of the recession which is now affecting all parts of the world and all sections of the cargo market. Unless there is a much more rapid and sustained recovery than there is yet reason to expect, the division cannot do other than show a substantial loss in 1978. Mr. W. G. Runciman the chairman, warns members.

In 1977 it was the shipping activities which, by a whisker, were the major contributor to the record group taxable profit of £2.59m. with a surplus of £984,748 from turnover of £18.99m. The remainder was split as to insurance with profit of £974,764 on turnover of £1.84m., and security with £834,317 on turnover of £17.65m. less holding company deficit of £205,460 on £164,833 turnover.

The chairman says, however, that the insurance division should again produce excellent results, even if not quite as good as the record last time, and security should show further improvement.

The balance sheet shows shareholders' funds at the end of 1977 ahead from £8.97m. to £12.41m. and short-term loans cut from £437,000 to £67,000. This reflects not only the impact of the successful rights issue but also the adoption of ED19 with regard to deferred tax.

The market value of ships of all types has fallen steadily over the past 12 months with the result that the figure in the accounts of £34.22m (£22.27m) is materially higher than the level at which the fleet could be sold to-day. Even so the directors have no intention of disposing of any further vessels at these exceptionally depressed prices once the sale of "Kirriemoor," which has been arranged at near to book value, is completed.

"Book values are bound in due course to come back into line with market values," Mr. Runciman comments.

As reported May 17 profit for 1977 was up from £2.49m. to £2.59m. on turnover of £38.65m. (£33.68m.) and the net dividend is lifted to 8.16p (7.42p) per 25p share.

Astbury & Madeley squeezed

Turnover at Astbury and Madely (Holdings) to May has been maintained above that of 1977, but margins continue to be eroded by fierce competition arising from the general slackness of trade, Mr. Harry Palmer, the chairman, says in his annual statement.

He says the economic outlook is clouded by uncertainty and that it would be foolhardy to suggest the extent of any improvement in group profits.

But if present trends are maintained and the newly acquired Birmingham Steel Company performs to expectations an adequate improvement is expected.

As reported on April 20, pre-tax profit in 1977 advanced from £0.55m to £0.78m. At balance date net current assets were up from £0.93m to £1.34m and fixed assets were £0.58m (£0.56m).

Meeting, Birmingham, June 13 at noon.

Wadham Stringer in strong position

With a sizeable fixed asset property base, the balance sheet of Wadham Stringer is very strong with good financial ratios, and also considerable unused financial facilities available to it, says Mr. F. C. Stringer, the chairman, in his annual statement.

During the year, the group took up a £4m term loan with its bankers and this had the effect of moving debt from short to medium term, while net current assets were substantially increased to £10.19m (£5.36m).

The company's freehold and leasehold properties were revalued and showed a surplus of £5,747,000 at £16,349,000. Ordinary holders' equity interest now stands at £18,617,000 and net assets at 59p per 10p share.

As reported on May 3, group pre-tax profit advanced from £2,246,000 to a record £3,355,000 for 1977, on turnover of £134.83m (£107.67m). Basic earnings were 6.57p (4.02p) per share and 5.97p (4p) fully diluted. With Treasury consent, the dividend is lifted to 2.2p (1.3585p) net.

On a CCA basis, taxable profit is reduced to £2.12m, after adjustments on cost of sales of £2.1m, depreciation £0.35m, less gearing £1.22m.

Mr. Stringer reports that the first four months of 1978 have shown improved results compared with 1977 and with prospects looking good, he is cautiously optimistic that the outcome for the year will be satisfactory.

FT Share information

The following security has been added to the Share Information Service appearing in the Financial Times:—

Deloswella Holdings (Section: Trusts—Finance, Land).

CABOT AMERICAN

The buying price of Cabot American Smaller Companies Trust is 49.5p, and not 48.2p as shown in the authorised unit trusts section.

Work for emergent nations boosts Hawker Siddeley

THE INDUSTRIAL ASPIRATIONS of the OPEC countries and other emergent nations has provided some fairly substantial contracts for British construction groups and has also provided major business for companies like Hawker Siddeley which supply the necessary equipment to allow these countries to generate their own power.

Hawker's latest report and accounts, published to-day, illustrates the increasing importance of these markets to the group now that its aerospace interests have been nationalised—compensation for which still has to be agreed.

Power generation equipment—from standby and portable generators, transformers and alternators through to massive turbine-driven generators for power stations—is a common factor running through Hawker's remaining engineering interests and has, to date, provided a more than satisfactory cushion against the loss of aerospace earnings.

Last year group turnover—with aerospace sales included for only four months—fell almost 6 per cent to £912m. However, profits after tax still managed to finish around 4 per cent higher at £50.6m.

Interest savings helped—following the repayment of £49m of aerospace loans—with a turnround from a deficit of £2.4m to an interest credit of almost £4m cash. Cash balances, following the loan repayment and an initial tranche of compensation of £3.1m, now stand at £114m.

Some of this cash has already found a home with Hawker paying around £22½m for 52 per cent stake in Carlton Industries, a move which will combine Hawker's Crompton Parkinson lead-acid battery business with Carlton's already substantial battery interests.

Among strong performers last year were the group's Mirlees Blackstone subsidiaries which manufacture diesel engines and diesel generating sets.

Hawker says in its report and accounts that profits and sales of Mirlees Blackstone (Stockport) were at record levels last year, although "world trading conditions in both the industrial and marine markets were far from easy."

The major stimulus behind the increased profits for both MB (Stockport) and its sister subsidiary MB (Stamford) came from increased demand from the emergent nations. The report says: "The majority of business for land based power generation has been secured in the Middle East and Africa with South America making a very useful contribution . . . significant progress was made in the South Eastern territories."

Last year mechanical engineering sales of Hawker—of which the around a quarter—increased by diesel generator side contributes 18 per cent to £317.6m while trading profits rose almost 22 per cent to £41.6m. First time profits from new acquisition L. Gardner, included for four months, will also have helped.

Profits from electrical engineering rose almost 30 per cent last year to £36.2m while sales increased 25 per cent to £335.9m. Here too, the growing overseas demand for power generation and ancillary equipment was a major factor.

Brush Electrical Machines, manufacturing alternators, is singled out as another Hawker company to produce excellent results on the back of this demand.

Hawker Siddeley Power Transformers also illustrates the importance of overseas markets to the group. The report says that the subsidiary earned record profits last year on a significant increase in sales. Exports now account for 60 per cent of HSPT's sales compared with around 10 per cent just over five years ago.

Hawker in recent years has undertaken several ambitious projects to provide complete power generation schemes through its Hawker Siddeley Power Engineering subsidiary.

The group is now near completing a £20m project for Oman which has entailed the construction and equipment of 19 power stations for the country involving the installation of 38 Mirlees Blackstone diesel generating sets.

World competition for these projects is intense particularly in the Middle East and currently the group is looking to expand its power engineering markets among other emergent nations—notably in South America.

In addition to its power engineering interests the group will be seeking to expand its battery interests with Carlton and still has plenty of cash around should it decide to look for other outside interests. However power engineering is likely to be a mainstay of profits for some time yet.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Barking (01-592 4500)	10½	½-year	1,000	4-6
Barking (01-592 4500)	11¼	½-year	5,000	4-6
Barnsley Metro. (0226 203232)	11	½-year	250	5-7
Knowsley (051 5486555)	11¼	½-year	1,000	5-7
Oxford (0865 49811)	11¼	½-year	5,000	5-7
Poole (02013 5151)	10½	½-year	500	5
Poole (02013 5151)	10¾	½-year	500	6-7
Redbridge (01-478 3020)	10¾	½-year	200	5-7
Thurrock (0375 5122)	11	½-year	300	4
Thurrock (0375 5122)	11¼	½-year	300	5-8
Worthing (0903 37111)	9¾	½-year	500	2
Wrekin (0952 505051)	11	yearly	1,000	5
Wrekin (0952 505051)	10½	½-year	1,000	3

Pending dividends timetable

The dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. Dates shown are those of last year's announcements, except where the forthcoming Board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent shown in the column headed "Announcement last year." Preliminary profit figures usually accompany final dividend announcements.

	Date	Announcement last year		Date	Announcement last year
Alexanders Discount	July 4	Int. 4.5	IC Gas	June 29	Final 5.37957
Allied Brews.	June 21	Int. 1.25	Jo'burg Consolidated	June 9	Int. due
Anglo-American Corpn. Grp.	June 9	Divs. due	Johnson Matthey	June 14	Final 7.1928
Anglo Transvaal Cons. Grp.	June 8	Finals due	*Land Secs.	June 6	Final 3.254
Arbuthnot Latham	June 23	Final 5.011	*Lindustries	June 21	Final 3.046
Assoc. Newspapers	July 4	Final 3.518	*"LOFS"	June 14	Final 3.32076
BPV	June 23	Final 3.147	Lyons (J.)	June 29	Final 5.335
Baker Perkins	June 23	Final 2.2338	*Marley	May 31	Int. 1
Bassett (Geo.)	June 28	Final 4.0336	Mercury Secs.	July 21	Final 3.3894
Bath and Portland	July 5	Int. 1.5	*Metal Box	June 5	Final 7.44
*Batsford (S. and W.)	June 15	Int. 3.5	MK Electric	June 22	Final 2.69
*Bilton (Percy)	May 31	Final 3.3362	Nat. Bank Australasia	May 11	Int. 6.5 cents
BPB Inds.	June 29	Sec. int. 3.426	News Int.	June 29	Int. 4
Brit. and Comm. Shipping	June 16	Final 4.3545	*Northn. Foods	May 30	Int. 1
Brown (John)	June 24	Sec. int. 5.28	Pauls and Whites	June 16	Final 2.414
Brown Shipley	June 9	Final 4.79	*Pesler Hattersley	June 13	Final 4.031
*Charter Consolidated	June 6	Final 4.68242	*Pilkington Bros.	June 16	Sec. int. due
*Charterhse. Grp	June 1	Int. 1.18	Plessey	June 21	Int. 0.48707
*Chloride	June 15	Sec. int. 3.4	Powell Duffryn	June 21	Final 5.13064
Chubb	June 15	Final 2.2355	Prop. Hldg. and Inv. Tst.	June 28	Final 3.708
*Coalite and Chemical	June 1	Final 0.3896	*Racal Electronic	June 22	Final 1.154
*CompAir	June 14	Int. 1.5	Rediffusion	June 24	Final 3.415
Daily Mail and Gen. Tst.	July 7	Final 7.512	*Reed Int.	May 31	Final 7.0945
Dawson Int.	June 20	Final 1.9523	Rothmans International	July 7	Final 1.1515
*De La Rue	June 6	Final 6.4 fest.	*Samuel (H.)	May 31	Sec. int. 6.4
Dobson Park	June 14	Int. 0.833	*600 Group	June 8	Final 2
Elec. and Gen. Inv.	June 21	Final 0.5	SGB	June 28	Int. 2.5
Electronic Rentals	June 9	Final 1.4515	Sheepbridge Eng.	June 28	Final 2.1756
*English China Clays	June 15	Int. 1.75	Staflex Int.	May 30	Final 1.61
*Finlay (Jas.)	June 6	Sec. int. 3.11	Standard Chartered	June 28	Final 10.325
*Gold Fields of SA Group	June 13	Divs. due	Staveley Inds.	May 12	Int. 4.4
General Electric	July 5	Final 1.802	Swan Hunter	May 24	Sec. int. 3.5
Gen. Min. Grp.	June 1	Divs. due	Tesco	June 22	Final 0.8267
Granada	June 30	Int. 1.0648	Triplevest	Mar. 31	Final 1.901
Grand Met.	June 2	Int. 1.6	*Triplex Fndrs.	June 15	Final 2.739
Gt. Portland Estates	June 14	Final 2.9437	Trust Houses Forte	July 5	Int. 2.25
*Guinness (A.)	June 16	Int. 2.3894	*UBM	June 1	Final 2.44125
*Guthrie Corpn.	June 8	Final 6	UKO Int.	May 31	Final 5.33
Hamleys	June 21	Final 58.75	Vaux Brews.	June 24	Sec. int. 6.05
Harrisons and Crosfield	June 13	Final 10.45	Ward (T. W.)	June 10	Int. 1.21875
Hickson Welch	June 2	Int. 3.639	Wedgwood	June 10	Final 3.7
Hill Samuel	May 31	Final 2.7653	*Wolv. and Dudley Brews.	June 1	Int. 1.7
			Woodhead (Jonas)	June 17	Final 4.6305

* Board meetings intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made from reserves.

COMMODITIES

Flaxseed gains in Canada

WINNIPEG, May 29. ††Rye—May 107.50 (106.50 bid), July 107.60 asked (109.20 asked), Oct. 107.90 bid, Nov. 106.50 asked, Dec. 106.50 nom.

††Oats—May 87.00 bid (88.00) July 82.00-82.50 (82.30), Oct. 79.80 asked, Dec. 78.50 bid, March 79.00 nom.

‡‡Barley—May 80.40 bid (81.00 bid), July 80.30 (81.00 bid), Oct. 80.80 asked, Dec. 80.30 bid, March 81.40 nom.

British and U.S. commodity markets were closed for the holiday.

§§Flaxseed—May 267.50 bid (264.50 bid), July 269.50 bid (264.20 asked-266.50), Oct. 265.00 bid, Nov. 264.40 bid, Dec. 263.00 bid.

**Wheat—SCWRS 13.5 per cent protein content of St. Lawrence 167.57 (164.79).

** Cents per 24 lb bushel. †† Cents per 48 lb bushel ex-warehouse. §§ Cents per 56 lb bushel ex-warehouse. 1,000 bushel lots. ‡‡ SC per tonne.

EEC IMPORT LEVIES and premiums for May 30, in order current levy plus June, July, and August premiums (with previous in brackets), all in units of account per tonne: **Common Wheat**—80.10, 0.68, 0.68, 0.84 (80.19, 0.34, 0.34, 0.61); **Durum wheat**—125.99, nil, nil, 1.01 (same); **Rye**—78.87, nil, nil, nil (same); **Barley**—71.52, nil, nil, nil (same); **Oats**—78.17, nil, nil, nil (same); **Maize (other than hybrid for seeding)**—69.22, 0.68, 0.68, 0.68 (67.18, 1.18, 1.18, 1.18); **Millet**—80.56, nil, nil, nil (same); **Grain sorghum**—80.36, nil, nil, nil (79.01, nil, nil, nil). For **Flours**: **Wheat or mixed wheat and rye**—124.34 (124.34); **Rye**—122.48 (122.48).

SYDNEY GREASY. Closing, May 29 (in order buyer, seller, business, sales). **Micron Contract**: July 342.0, 342.5, 342.5-341.0, 69; Oct. 346.0, 346.5, 347.0-346.5, 15; Dec. 350.0, 350.5, 351.0-350.0, 18; March 354.5, 355.0, 358.0-355.0, 13; May 357.5, 358.5, 358.0-358.0, 11; July 359.8, 360.0, 360.0-360.0, 9; Oct. 362.0, 362.5, 363.0-362.5, 11. Total sales: 149 lots.

RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

... offered to holders of Ordinary shares as a "rights" ... by way of capitalisation. †† Minimum tender price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ||| Introduction. ¶ Issued to former Preference holders. ■ Allotment letters (or fully paid). ● Provisional or partly-paid allotment letters. ★ With warrants.

BASE LENDING RATES

A.B.N. Bank	9 %	■ Hill Samuel §	9 %
Allied Irish Banks Ltd.	9 %	C. Hoare & Co. †	9 %
American Express Bk.	9 %	Julian S. Hodge	10 %
Amro Bank	9 %	Hongkong & Shanghai	9 %
A P Bank Ltd.	9 %	Industrial Bk. of Scot.	7½%
Henry Ansbacher	9 %	Keyser Ullmann	9 %
Banco de Bilbao	9 %	Knowsley & Co. Ltd.	11½%
Bank of Credit & Cmce.	9 %	Lloyds Bank	9 %
Bank of Cyprus	9 %	London Mercantile	9 %
Bank of N.S.W.	9 %	Edward Manson & Co.	10½%
Banque Belge Ltd.	9 %	Midland Bank	9 %
Banque du Rhone	9½%	■ Samuel Montagu	9 %
Barclays Bank	9 %	■ Morgan Grenfell	9 %
Barnett Christie Ltd.	9½%	National Westminster	9 %
Bremar Holdings Ltd.	10 %	Norwich General Trust	9 %
Brit. Bank of Mid. East	9 %	P. S. Refson & Co.	9 %
■ Brown Shipley	9 %	Rossminster Accept'cs	9 %
Canada Perm't. Trust	9 %	Royal Bk. Canada Trust	9 %
Capitol C & C Fin. Ltd.	9 %	Schlesinger Limited	9 %
Cayzer Ltd.	9 %	E. S. Schwab	10½%
Cedar Holdings	9½%	Security Trust Co. Ltd.	10 %
■ Charterhouse Japhet	9 %	Shenley Trust	11%
Choulartons	9 %	Standard Chartered	9 %
C. E. Coates	10 %	Trade Dev. Bank	9 %
Consolidated Credits	7½%	Trustee Savings Bank	9 %
Co-operative Bank *	9 %	Twentieth Century Bk.	10 %
Corinthian Securities	9 %	United Bank of Kuwait	9 %
Credit Lyonnais	9 %	Whiteaway Laidlaw	9½%
The Cyprus Popular Bk.	9 %	Williams & Glyn's	9 %
Duncan Lawrie ¶	9 %	Yorkshire Bank	9 %
Eagil Trust	9 %		
English Transcont.	9 %		
First London Secs.	9 %		
First Nat. Fin. Corpn.	10 %		
First Nat. Secs. Ltd.	9½%		
■ Antony Gibbs	9 %		
Greyhound Guaranty	9 %		
Grindlays Bank ‡	9 %		
■ Guinness Mahon	9 %		
■ Hambros Bank	9 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 6%. 1-month deposits 6½%.
† 7-day deposits on sums of £10,000 and under 6%, up to £25,000 6¼% and over £25,000 6½%.
‡ Call deposits over £1,000 6%.
§ Demand deposits 6½%.
¶ Rate also applies to Sterling Ind. Secs.

HOME NEWS

New fishing grounds 'should be exploited'

BY CHRISTOPHER PARKES

LOUSY BANK, Bill Bailey's Bank, Foula, Tory and Rockall Bank may soon be yielding valuable dividends for Britain's under-employed deep sea trawlermen. These are unexploited fishing grounds off the West Coast of Britain in which fishermen are being encouraged to try their hand.

A report just published* suggests they should sail out to these unfamiliar waters in pursuit of unusual but edible varieties of fish such as the round-nosed grenadier, the director fish, black scabbard and the small sharks which abound in deeper waters.

"While it would be wildly optimistic to think that the opening up of these grounds would solve all our fishery problems, when faced with the alternative of scrapping vessels and laying off crews, this potential new fishery would seem to merit serious consideration," the Ministry of Agriculture study concludes.

One of the main advantages in fishing the new grounds lies in their closeness to Britain compared with the fisheries usually visited by the deep-sea fleet off Norway, Iceland and in the Barents Sea.

Catch rates in the new grounds are comparable with those in the traditional fisheries from which U.K. boats are now largely excluded. "But the species are new to Britain," the report says. "While there are some catching, processing and, perhaps above all, marketing problems to overcome, there could be advantages in exploiting these new stocks."

The black scabbard presents the fishermen with problems. Its black outer skin washes off to make it more pleasant to look at, but gutting is made difficult by its long sharp teeth and spines on its body.

Red and meaty

The flesh, the Ministry of Agriculture reports, is very firm, white has a pleasant flavour, which is popular in Madeira.

Virtually nothing is known about the director fish, except that it is bright red and meaty with "a very pleasant sweet flavour." It is unfortunate that so far commercial quantities have only rarely been located," the report says.

Less attractive altogether is the smoothhead, common in these waters. The flesh contains 92 per cent water. And although the flavour is described as pleasant, the Ministry thinks "its very sloppy texture would make it unacceptable for food."

The report concludes that the most sensible use of the new grounds would be to fish there on the way to or from other more conventional deep sea waters "and so eke out the national quotas of cod or haddock."

It adds: "With the present high price of fish it is difficult to believe that, given a proper programme of market research and advertising, there is no market in this country for good quality fish available all the year round at 20 per cent less cost than that of cod."

* *New Deep-Water Trawling Grounds to the West of Britain. Laboratory Leaflet 41, Lowestoft.*

Custom-built plants at no extra cost

BY MONK MATTHEW

A DEVELOPMENT company, founded five years ago, has been growing in spite of the building industry recession by using a formula which produces custom-built factories and commercial premises at no capital cost to the client.

Bildeston Securities, of Ipswich, has been using a business technique which has become increasingly popular in the construction contracting sector and has helped to attract customers for an industry experiencing one of its worst recessions.

The company has a projected turnover this year of £1.4m, with nine further contracts in an advanced stage of negotiation. These involve two factories, three office developments, a Marina project and three housing estates.

These will be pre-sold to investors in accordance with the company's formula, which divorces it from the speculative element that has brought down numerous building companies during the slump.

The East Anglia region does not, generally, attract investors. Although it is industrially and commercially the fastest growing region in the UK, its potential is largely by-passed by investors and Government.

Regular research by Bildeston Securities showed that there were many companies in East Anglia whose growth was being held back for want of buildings custom-designed to give higher productivity employing advancing technology.

According to Mr. Philip Ransome, the founder: "Speculatively built premises into which firms have to arrange production and all other functions to fit into shapes and spaces unrelated at the design stage to their specific need are rapidly becoming a thing of the past—probably nationally as well as in this region.

"Advanced technology, involving machinery which needs setting into foundations, the medley of legislation which has to be built into factories and the need for higher productivity embracing all possible economies has completely changed the pattern of the requirement. . .

"But the biggest growth in East Anglia is the collective growth of smaller firms (in Ipswich, for example, there are 1,500 employers, of whom 1,200 employ less than 20 people) and our research reveals many which require new buildings taking production and through-put as the design starting point, which is about as opposite as you can get from speculative built units.

"The problem for these firms is capital. Either they do not have it, cannot attract it from investors because of the East Anglian "rural" image, or prefer to retain it as working capital."

Bringing the two together is at the root of the Bildeston formula, together with cutting costs which have led to the downfall of many developers during the recession.

"From the beginning," says Mr. Ransome, "we saw carrying idle labour between projects as one of the main causes of building firms' failure. We decided to carry no site labour.

"We use carefully vetted and selected sub-contractors as required, or for major contracts substantial building companies, but always under on-site and very close supervision of our nucleus staff."

He adds: "Our formula works like this: A company approaches us for a new development. We undertake to find the capital, design, to their itemised specifications, construct the building(s)—and let it to them on a 25 or more years lease, where necessary providing cover by a major insurance company.

"Because we work to a return of costs regardless of local current rental values, the rental can often be less than rental values for speculative units."

APPOINTMENTS

New chairman for Dunlop

AS FORESHADOWED in this column a year ago, Sir Campbell Fraser has been appointed chairman of DUNLOP HOLDINGS in succession to Sir Reay Geddes. Sir Campbell will continue as chief executive of the company and chairman of the two main Dunlop operating companies—Dunlop Limited and Dunlop International Limited. Sir Reay has accepted an invitation to become honorary president of the company.

★

The Earl of Carrick and Mr. S. A. Bowes Lyon have been appointed directors of DE MONCHY AROMATICS.

★

Mr. John Loudon, a director of N. M. Rothschild and Sons, has been elected to the supervisory Board of SHV HOLDINGS NV, Utrecht.

★

BRITISH SHIPBUILDERS has made the following changes. Mr. J. C. Murray, chairman and managing director of George Clark and Nem, has been appointed chief executive of Doxford Engines from June 5. He will retain the chairmanship of George Clark and Nem. Mr. E. P. Crowdy, managing director of Hawthorn Leslie (Engineers), also becomes chief executive of George Clark and Nem from June 5, and will be responsible for the operation of both concerns.

It is intended that both companies retain their separate identities, but that any co-operation that improves their respective organisations be investigated and implemented, states British Shipbuilders.

★

Mr. George Colson, sales director of Mintex, has been appointed president of the FEDERATION OF EUROPEAN MANUFACTURERS OF FRICTION MATERIALS.

★

Mr. Ian Fowler has been appointed chief passenger manager, BRITISH RAIL SCOTLAND, succeeding Mr. R. J. Parks, who is now chief passenger manager, BR Southern Region.

★

Professor J. M. Samuels, who is to take up an appointment at the UNIVERSITY OF TUCANE, New Orleans, U.S., is to resign from the Board of WOLSELEY-HUGHES at the end of this month.

★

Because of an increase in his other commitments, Mr. C. H. Tidbury is relinquishing his directorship of SPILLERS at the end of this month and will not be standing for re-election as a non-executive director at the annual meeting in July.

★

Mr. Ernest Clare has been appointed works director of SCHRADER PNEUMATICS.

★

Mr. Peter Bonner has been appointed group managing director of UNITED ENGINEERS. He was previously managing director of COMPAIR INDUSTRIAL.

★

Mr. Colin M. Short, regional treasury director for GULF OIL CORPORATION, has been elected an assistant treasurer of the Corporation. He will remain in London.

★

On the retirement of Mr. S. Whittington and Mr. R. Woodall, assistant general managers, the PORT OF BRISTOL AUTHORITY has reorganised its management structure. Mr. G. A. Pike (formerly assistant general manager—finance and administration) has been appointed to the new position of deputy general manager. Mr. R. G. Baker (who was docks engineer) becomes chief engineer, with Mr. N. Ahmad as deputy chief engineer, Mr. E. Crease assistant chief engineer (plant), Mr. D. R. Mylchreest assistant chief engineer (structures) and Mr. T. A. Taylor (previously docks manager) moves to the new position of chief docks manager responsible for Avonmouth, Portishead and Royal Portbury Docks.

★

Mr. Christopher Barrett has joined SCANDINAVIAN BANK as manager of the new issues department. He was previously with S. G. Warburg and Co.

★

The Secretary for Employment has made three appointments to the HOTEL AND CATERING INDUSTRY BOARD. They are: Mr. Vincent Coulson as employer member and Mr. Harry Shindler and Mr. Jeremy Tilston, employee members.

★

Mr. Trevor Williams has joined the Board of CONSOLIDATED SAFEGUARDS as non-executive director.

★

Mr. H. C. Bowron, chief executive of the group's engineering division of the LOW AND BONAR GROUP, has been appointed to the group Board.

★

Mrs. D. Merrill has become the first woman "Grand Master" of the ODD FELLOWS in the 157 years of the Society's existence. She was also the first woman to be elected to the Board. It is the world's largest friendly society, with assets of more than £40m. and 1,500 branches throughout the country. It was founded on contributions made by working people who banded together to save themselves from the indignity of a pauper's burial. The Society now offers a range of competitive insurance schemes and sickness benefits, together with useful fringe benefits, such as free legal aid for personal injury cases.

★

At the annual meeting of BENTALLS Mr. Rowan Bentall retired as chairman and joint managing director after 43 years' service, and was elected the company's first president. New chairman is Mr. James Spooner, and the managing director is Mr. Edward Bentall, eldest son of Mr. Rowan Bentall and great grandson of the founder. Mr. F. Greville Peacock has been appointed deputy managing director while remaining sales director.

★

ENGELHARD, supplier of precious metals, announces three executive changes from June 1. Mr. R. E. Walter is appointed chief executive UK operations, responsible to Mr. C. R. Buckeridge, general manager European operations, for the management of the three UK operating groups: the Sheffield Group, the Metallurgical Group and the Chemical Group. Mr. B. Ward is appointed chief executive of the Sheffield Group and succeeds Mr. Walter as managing director of the Sheffield Smelting Company subsidiary. Mr. C. K. Cowan is appointed chief executive of the Metallurgical Group.

★

Mr. Derek Johnson has been appointed operations director, marketing, sales and distribution of Lyons Bakery.

★

Mr. Johannes G. van Thiel, a senior vice-president of the international banking group, has been appointed HARRIS BANK'S new representative officer in Paris and to represent the Chicago bank as a director of Banque Hervet. Mr. Craig E. Bentley has been appointed an international banking officer in the Paris representative office.

★

Mr. Richard Edgecliffe-Johnson has been appointed vice-president at CITIBANK, NA. He is based in the London office.

★

Sir Frederic Bennett, MP, a member of the Governing Council, has become chairman of the FOREIGN AFFAIRS RESEARCH INSTITUTE. The founding chairman, Lord Colyton, asked to resign because he is now living abroad, will remain a member of the Governing Council.

★

The appointment of Mr. Jarl H. F. Köhler to FINNBOARD and the retirement of Mr. B. Cronhagen will come into effect on November 1, 1979, not this year as reported last Thursday.

★

Mr. C. O. Yandle retires as managing director of LINDT (ENGLAND), chocolate manufacturers and importers, on June 30 but will remain on the Board. He will be succeeded by Mr. I. Abbot.

★

The UK Agricultural Supply Trade Association has elected Mr. T. Skelly vice-president, seeds. He is group commercial director of Farm Feed Holdings, Northallerton. He will also become general vice-president of COSEMCO, the seed committee of the Common Market.

MINING NOTEBOOK

Where you had to wear shoes and socks

BY LODESTAR

"GENTLEMEN are requested to put on their shoes and socks before entering the dining room." So said the notice on the door. I was on my way to a supper party with the chairmen or senior management officials of no less than eight mushrooming exploration companies.

I wanted to find out whether any of them had actually discovered anything. Unfortunately they all seemed to be much more interested in whether I could pick out for them the share that was likely to become the next "high-flyer."

As a clue to the time and venue of this abortive meeting, earlier on I was walking down a street which was deserted except for a large crowd gathered closely together in front of a small building. Fearing that there had been an accident I hurried to join them.

I found myself obtaining a somewhat distant view of a list of stock exchange prices propped up in a window. "What are Poseidon now?" I heard someone shout from the rear. Yes, the time was 1969 and I was in Western Australia probing the anatomy of the great nickel boom.

These events have been brought vividly to mind by the revival in the Australian mining market which has already got to the stage when old forgotten names are beginning to re-appear in the price lists. But nickel is no longer the target. The energy materials oil, gas and uranium are the main glamour objectives plus a distinct dash of speculative sparkle from the diamond search in the Kimberleys and now in the Nullagine area of the Pilbara.

Geologists are once again beginning to talk big and are even getting their jobs back. But has anything really changed? It all started off by pent-up investment funds coming into the stock market [illegible] providing metal prices continue on the recovery trail, even the market for nickel is looking a little brighter, these had fallen to attractive levels.

Rising share prices soon captured the speculative imagination. Fingers singed in the past had cooled down sufficiently to be itching for another go. And it did not take much to get prices of the penny stocks quickly on the run. Once this starts the movement soon begins to feed upon itself with some extra sustenance coming from the inevitable flow of rumours.

Yet there is no firm evidence that any of the junior exploration companies have come up with any new discovery of importance nor that they are more likely to do so now than they were a few months back when the share market was in the doldrums. As always, they live on hope.

Moreover, if their shares rise too far too fast they are quickly queried these days by the Australian stock exchanges. And if their answers are not considered to be satisfactory dealings in their shares can speedily be suspended. This at least has the advantage of scotching some of the more fanciful rumours.

The diamond exploration rush which is bringing in the buyers for Conzinc Riotinto of Australia, Tanganyika Concessions and Northern Mining with the last-named particularly prominent, is beginning to look distinctly odd in relation to the recent extremely cautious assessment of prospects by CRA chairman Mr. Rod Carnegie as pointed out in Saturday's mining column.

In fact, it looks as though either Mr. Carnegie's face is going to be very red or the fingers of the share buyers are. So what must be borne strongly in mind in this kind of market is the cliché, which many wish they had taken notice of in the past, that nobody went broke by taking a profit or that no harm is done by leaving something for the next man.

Look at Metals Exploration for example. Their shares have quadrupled in price. Yet the outlook for the struggling Greenvale lateritic nickel mine in Queensland in which Freeport Minerals has a 50 per cent interest [illegible] the partner is by no means that much brighter. In fact, in March Freeport was voicing doubts whether it will ever get its money back.

One survivor from the nickel boom, Tasminex about which I wrote recently, has actually revived its fortunes sufficiently to declare a dividend (5 cents) out of profits from its Tasmanian wolfram mine in which Canada's McIntyre group has been showing an interest. Friday's share price was 80p. So here are certificates that can be rescued from the old oak chest and at least dusted down.

This year's platinum industry dinner was particularly well-timed. Not only did it take place in a week which saw a speculative upsurge in the free metal market but the day itself, May 18, marked the peak of a movement that took the London price up to $251 an ounce, a dramatic change from the depressed conditions of only a short time ago that threatened to plunge it down below $200.

A speculative squeeze on nearby supplies and the continued absence of Russian sales caused the rapid recovery. A Russian contingent were at the dinner but they were keeping their future market intentions very much to themselves.

From the share market viewpoint the number one question now is when the South African mines, Rustenburg and Impala, are going to give their producer price another hoist. It was raised to $220 in February. Last November it was only $162. I gather that they had no intention of following the open market upwards until it ran into the inevitable profit-taking and conditions therein had become distinctly more stable. On Friday the London price had fallen to $240. Dealings were calmer.

Then Rustenburg will probably again lead the way upwards as it would probably like to see a level of at least $250 in order to restore its operations to financial health. The current guess is that a move to $230 or $235 could be coming along around the end of June. This could give the share market its next upward push. But the Russians still hold the key.

INSURANCE

Association's films spread message of factory safety

BY OUR INSURANCE CORRESPONDENT

THE BRITISH Insurance Association introduced its film, Safe Systems of Work, just over a week ago. It is the latest in a line of industrial safety training films which have been made since the passage of the 1974 Health and Safety at Work Act.

The film runs for 20 minutes and has been designed to assist management and workers in the identification of factory dangers. It also shows how safety representatives can identify potential hazards.

The association had previously made one 20-minute film, Safety, Everyone's Business, and four 10-minute films dealing with breathing, seeing, hearing, and dermatitis.

Its films can be bought outright. Safe Systems of Work cost £150, Safety, Everyone's Business £120, and the shorter films £50 each. These prices are discounted in the range 5 per cent to 17½ per cent, depending on how many films are bought at the same time.

For those who do not need to make frequent use of such films, hiring is possible at £10 a film a week, and here again the range of discounts applies. The first weekly hiring fee for each film can also be offset against future purchase. It goes, I hope, without saying that VAT has to be paid.

Inquiries for purchase or hire should be made to the association at Aldermary House, Queen Street, London EC4P 4JD.

With the latest film comes a set of speaker's notes setting out how the film can be incorporated into a training session, and advising how the training officer should at the start explain to his audience the significance of the relevant provisions of the 1974 Act.

The main part of the booklet deals with the instructional discussion that is necessary after the film has been seen.

In the past, criticism has often been levelled at insurers that they have been content to collect premiums for employers' liability risks (hopefully setting those premiums at a level to contain claims costs) without taking any real steps which their collected and collective wisdom might suggest, to reduce the risks of injury at work.

Even in the past, such criticism was not completely fair, for the association has long had an industrial safety panel and had contacts with the Royal Society for the Prevention of Accidents.

At the same time, a number of individual insurers writing substantial employers' liability accounts have positively encouraged risk improvement by providing expert advice for individual policyholders with unsatisfactory employment accident records.

But, particularly since the 1974 Act became law, the association take a much more positive stance, and the series of films is clear evidence that insurers now consider that they must be seen to be playing their part in the containment and, it is hoped, the reduction of the number and severity of accidents at work.

Another association leaflet, For Safety's Sake, invites management to take a look at itself and poses eight questions requiring a simple "yes/no" answer.

Without stealing all the association's thunder, these questions include:

Do the safety officer and supervisor have enough authority to enforce safety procedures?

Do you have a system for monitoring your company's safety performance?

Do you keep the file of industrial hazards, and is the information it contains readily available to all employees?

The more negative answers a company gives, the more inefficient it is from the safety viewpoint.

It also runs more risk of prosecution with the further risk on conviction of having the factory inspectorate issue improvement or prohibition notices, and, in the extreme case, the chance of imprisonment for those responsible.

And the more premium it is likely to have to pay when its bad record comes up for consideration at next renewal.

Delay to ferry hits TT fans

THE START of a roll-on roll-off ferry service between Heysham and the Isle of Man has been postponed because of a strike by port workers in Scotland.

Thousands of motorcycle enthusiasts who had booked with Manx Line for the start of the TT races next week may miss them.

Mr. Geoff Duke, a former motorcycle champion, set up Manx Line last October to compete with the Isle of Man Steam Packet Company, which runs the only other service to the island from England.

The TT races begin on Saturday. The new company had 2,500 people booked to Douglas from Thursday.

FILM AND VIDEO BY JOHN CHITTOCK

Technological aid for the deaf and blind

OF ALL the blind and deaf people in the world, very few suffer total disability. In the UK, of some 150,000 registered as blind, only 10 per cent cannot distinguish light. Of the million or more hearing sufferers, only about 10 per cent are stone deaf. The practical consequences of this are that for the majority with a vestige of vision or hearing, an appropriate audio-visual aid may provide some improvement —often making all the difference between isolation from the world and some measure of communication.

This has led to the creation of the low vision clinic, and a great deal of pioneering work in optical and electronic aids. At Moorfields Eye Hospital in London, Miss Janet Silver has been something of a pathfinder in this sea of darkness—especially with clinical work in the use of closed circuit television. For some visually disabled people, the perception of printed matter becomes possible if the image is large enough and/or has strong contrasts. By using closed circuit television, magnifications of 40 to 400x are now being used to assist low vision people to read; and, of course, the contrast of a picture can be increased beyond its normal range.

Low vision

Equipment designed for this purpose is still relatively new, and the £1,000 price tax (including a TV monitor) may well be reduced in the future.

Nonetheless, it is technically feasible for Teletext and Viewdata—the new domestic TV data systems—to provide text of a size that might benefit low vision people.

The Royal National Institute for the Deaf (RNID) is already involved in the forthcoming Viewdata trials because the system can be used for two-way communication. With a viewer's television set connected (via the telephone lines and special adaptor) to the Post Office Viewdata system, it becomes possible for one subscriber to call up another and—using a special keypad—send messages that will be displayed on their TV screens. At relatively small cost, the totally deaf at last may have a method of "telephoning" other people.

In the meantime, the BBC already sub-titles some television news programmes—specially for the deaf. The IBA also intends to start a similar service, but using their Oracle teletext system so that other viewers will not see the captions unless they are switched in via a teletext decoder.

The IBA's interest in this field has been extended further by the establishment, with the Independent Television Companies Association, of a research fellowship based at Southampton University. Awarded to Mr. John Tucker, this will examine various aspects of sub-titling for the deaf.

One important development in this respect is the equipment already used in the House of Commons for Mr. Jack Ashley, the deaf MP. The normal Hansard verbatim reporting system, using Palantype shorthand machines, is connected to an electronic visual display so that Mr. Ashley can follow debates. But the Palantype output is spelt phonetically and it requires training to assimilate this. However, a new development is on its way that takes the Palantype output through a small computer and yields 98 per cent clear spelling. This innovation will make it much easier to use live broadcast text captioning. It has already been tried at a conference with a large platform display, and deaf people in the audience were able to follow the proceedings relatively easily.

More extraordinary is the commercially-available Optacon reading system for the blind. This is a closed circuit television system that feeds signals from scanned images of text into a small box with a miniature array of 144 studs; these vibrate in a pattern corresponding to the image and can then be "read" through the fingertips by a blind person. Although costing about £2,000, for some people it is an invaluable aid, especially for students who may wish to "read" text books not available in Braille.

Another example of technology at work is the talking pocket calculator. This really does speak its answers (with synthetic speech), although because the currently available model comes from the U.S. it has a slight American accent! There are hopes in the far future that the process could be reversed—namely that speech input could be automatically converted into a visual text display for the deaf or even a tactile one for the blind.

Meanwhile, many simpler and cheaper aids are doing a first-class job and in some cases may be irreplaceable. The Post Office, for example, provides special telephone bells for the deaf and soon expects to have an adaptation to telephones that will enable hearing aids to be used without a wired link. The RNID has many other ingenious devices—alarm clocks that flash lights or vibrate; even a baby alarm that flashes a light in response to crying. Talking books and newspapers, recorded on audio tape, are another important service.

For the blind, audible bleepers which hook on to any place in the garden or house which needs to be located again easily are available. A newer version bleeps only in response to handclaps within about 30 ft —an invaluable aid for a blind person in locating their own gate in the street.

Design

The design of hearing aids remains, for some, a vexed problem. The welcome miniaturisation of the electronics has yielded ergonomic snags—such as the tiny three-position switch on behind-the-ear models, an impossible challenge for the fumbling fingers of the elderly. My own 82-year-old mother, a reluctant and in consequence only casual user of such an aid, invariably puts it away in its box switched on in error—the screeching noise of the resulting feedback inaudible to her.

Additionally, her complaint of "rushing" noises when using the aid is a common one—partly due to the complex nature of audio characteristics in amplified sound. The human ear can be more selective than a microphone, and the frequency of speech is high—the very part of the audio spectrum that diminishes most with age but also suffers most from reverberation effects in a room.

In some cases, these problems may be due to the use of a hearing aid with too much amplification. It underlines the point, stressed by all blind and deaf experts, that no one should purchase or use direct aids to sight or hearing without consultation. Specification of the right aid can sometimes make all the difference, even if the quality of hearing aid advice dispensed by our hard-pressed National Health system has not been universally endorsed by the experts.

Anyone wishing to know more about these aids should write to RNIB, 224, Great Portland Street, London W1N 6AA, or RNID, 105, Gower Street, London WC1E 6AH.

Warning on London's decline

A CLAIM that Greater London faces continued industrial decline is made to-day by the London Chamber of Commerce and Industry. In a report prepared by its economic department the chamber says that the fact that some of the main powers in the GLC Powers Bill were removed by the House of Commons last week illustrate that London is still viewed as a milchcow by the rest of the country.

The chamber points out that if the PLA closes its upper docks the level of unemployment in the Stepney and Poplar districts could rival that in the worst blackspots in the UK. While some Government measures such as the partnership arrangements for Docklands, Lambeth, Hackney and Islington will help, there were other areas of inner London which were not receiving help, such as Bow and Stepney in Tower Hamlets.

The chamber has called for inner London to be designated as an assisted area for a limited period of 10 years. It would like to see more help given for projects such as improved transport facilities and clearance of derelict land.

The chamber says that there has been a marked improvement in relations between the local authorities and industry and commerce with new factory schemes now receiving priority. However, there is still a residue of planning problems in areas such as zoning and access to premises. One of the most serious constraints to industry in London is the growing shortage of skilled workers which is a reflection of the national situation.

The chamber says that in London this shortage is being caused to a large degree by a drift away from manufacturing industry to jobs in the non-productive areas of the public sector. Pay, work conditions and a higher level of personal security are all main factors in enticing the skilled worker away from industry and wealth-creating jobs.

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INTL. FINANCIAL AND COMPANY NEWS

KSH sells out to food groups in Holland

By Charles Batchelor

AMSTERDAM, May 29.

THE troubled Dutch starch and foodstuffs group, Royal Scholten Honig (KSH), has agreed to transfer its Dutch and some of its foreign activities to four Dutch food groups. Negotiations are still continuing, however, over its substantial interests in the UK, U.S., South Africa and Belgium.

The potato starch co-operative, Avebe, will take over a number of KSH's companies in Holland as well as SEPA and Solvital, both of Milan, Italy, Stadex of Malmo, Sweden, and Ets Paul Doittau of Corbeil, France. The Dutch sugar producer Centrale Suiker Mij (CSM) will take over KSH's food division while the food processor, Wessanen, will acquire its wheat products subsidiary.

A newly-formed company, jointly-owned by Wessanen, Avebe and the sugar producer, Suiker Unie, will take over the starch making activities of Verenigde Zetmeelbedrijven near Amsterdam.

The transfer of interests will take place on June 3 with the purchasers taking over the liabilities of KSH's Dutch subsidiaries which have arisen since the company suspended payments in March.

The new owners will also take on the 1,000 employees of KSH in Holland and the 500 abroad employed by these companies. In the longer term redundancies will probably be necessary.

A purchaser has still to be found for KSH's interests in the UK including the Isomerose factory at Tilbury, which accounted for much of KSH's difficulties, KSH Chemicals Corp of Roselle, New Jersey, KSH Iowa and Chemtrol Adhesives are not covered by the agreement nor are KSH's South African and Belgian subsidiaries. No buyer has yet been found for its starch company in Emlichheim in West Germany while the German foods group, Wilhelm Wolff, has been shut down.

Setback seen by KHD

COLOGNE, May 29.

A QUIETER year is expected by Kloeckner-Humboldt-Deutz in 1978 after three clear years of growth. As a result net profit is likely to drop from last year's DM 46.5m on virtually unchanged turnover, management Board chairman Bodo Liebe told shareholders.

Last year's result, when third-party group turnover rose to DM 4bn from DM 3.5bn, featured a significant expansion in turnover from plant construction. Sales in this sector will drop this year owing to the accounting procedure for large long-term projects though this will be compensated by expected increased sales of standard products.

Parent company turnover in first four months of 1978 was DM 810m against DM 874m. Incoming orders were DM 948m compared to DM 863m, while orders on hand on April 30 totalled DM 2.56bn against DM 2.7bn.

Reuter

MEA returns to profit

MIDDLE EAST AIRLINES made a net profit of Lebanese £20.1m last year compared with a total loss of L£34.8m in 1975 and 1976, according to chairman Mr. Asad Y. Nasr, reports Reuter from Beirut. Net profit for last year represented four per cent of revenue, Mr. Nasr added.

Japanese industry reports results ahead of forecast

BY CHARLES SMITH

TOKYO, May 29.

JAPANESE industry performed marginally better during the six months ending last March than preliminary forecasts suggested, judging by an analysis of the profit and loss figures of companies which have so far declared their business results.

The analysis, by Wako Securities, covers 230 companies on the first and second sections of the Tokyo Stock Exchange (just under half the total). It reveals a 2.94 per cent increase in current profits (compared with the September, 1977, business term), although operating profits are lower by 2.07 per cent. Companies which increased their profits during the term outnumber those which reported lower profits by 149 to 81. Companies which recorded increased sales number 158, against 72 whose sales showed a decline.

A cautionary note attached to the Wako analysis points out that although nearly half of Japanese industry has now reported its March results, reports are still to come from some of the "worst" industries (shipbuilding and non-ferrous metals). When the average has been dragged down by results from these sectors the overall level of current profits may show a small decline from the September term. It will be less, however, than the falls of 5 or 7 per cent widely predicted before results started to come in.

Reasons for the unexpectedly good showing to date include: the impact of the Government's heavy public works expenditure on construction-related industries: the effect of strong investment by the electric power industry on sales of electrical machinery manufacturers: the unexpected success of the motor and electrical industries in dealing with the effects of yen appreciation on their export profits: the positive impact of yen appreciation on the profits of other industries whose costs are heavily influenced by prices of imported raw materials.

More generally, the less depressed bright profits picture confirms the impression that the economic activity has been reviving slowly during the past few months instead of staying on a plateau, or even plunging back into recession as was feared might happen when the yen began to rise sharply last autumn.

The difference between modestly rising current profits and slightly declining operating profits reflects the efforts of companies to produce a good profit picture at the end of the March business term which is also the end of the Japanese financial year.

Tokyo SE suspensions

BY YOKO SHIBATA

TOKYO, May 29.

THE Tokyo Stock Exchange today suspended dealings in the shares of Fujisash Industries and Fujisash Sales because of Y30bn (£13.3m) of "window-dressing" by both companies is revealed in their latest business results. Both companies were rescued from bankruptcy last February by Daiwa Bank and Saitama Bank: their combined debts totalled around Y200bn last February.

As a resuplt of check-ups by a reshuffled management lead by Mr. Hiroo Horigome (formerly of Daiwa Bank) more than Y20bn of profits claimed by Fujisash Industries and Y10bn of profits claimed by Fujisash Sales were disclosed as "excess statements" of real profits in the company's business reports for the period ending March last year.

The new management has decided to report these excess statements of profits as a loss incurred during last fiscal year. According to banking sources, both companies' liabilities had exceeded their capitals before March 1977.

Allianz expects further growth

BY JONATHAN CARR

MUNICH, May 29.

ALLIANZ VERSICHERUNG, West Germany's largest insurance company, expects overall business growth of between 6 and 7 per cent this year—and another boom in its relatively small but fast-growing foreign activities.

The executive chairman, Dr. Wolfgang Schieren, said further losses were to be feared this year from the motor vehicle insurance division, where the company was faced with a steady increase in claims and no possibility of altering premium rates before the start of 1979.

Against that had to be set satisfactory results from other divisions and an increase in costs lower than the rise in premium income. Developments so far pointed to a year of "suitable profitability."

Last year net profit fell to DM 131m from DM 159m in 1976. Despite the fall, matched by the domestic insurance branch generally, the company is proposing an unchanged 20 per cent dividend—on top of which shareholders will receive a tax credit resulting from corporation tax reform. DM 65m is being added to reserves.

Premium income of the Allianz Group (not including life insurance results) increased by 9.3 per cent last year to DM 5.3bn. Growth of domestic cent to DM 4.6bn.

Foreign business was growing especially strongly—and is more significant to Allianz than the figures at first sight might seem to indicate.

Group premium income from abroad last year is given as DM 293m—an increase of 24.4 per cent in 1976. But this figure does not include the results of Allianz foreign subsidiaries. If these are added in, then it is clear that foreign activities make up around 10 per cent of Allianz group business.

First quarter loss at Schering

BY LESLIE COLITT

WEST BERLIN, May 29.

THE West Berlin based Schering pharmaceuticals and chemicals company is paying an 18 per cent dividend compared with 20 per cent. Worldwide group sales rose 6.8 per cent to DM 2.13bn and Schering AG turnover increased 6.2 per cent to DM 1.26bn in 1977 which the Board describes as "satisfactory."

In the current year Schering expects an increase in sales of 4 to 5 per cent following a weak first quarter which saw the company dip into the red. World sales were hard hit by currency changes which last year caused a DM 50m currency loss.

Growth of Schering AG last year was almost wholly due to exports which rose from 61.7 to 63.5 per cent of turnover.

Alfa Romeo chief resigns

BY PAUL BETTS

ROME, May 29.

SIG. GAETANO CORTESI, chairman of the State controlled Alfa Romeo car group, resigned today following a suspended sentence of 40 days' imprisonment issued against him and three other Alfa Romeo executives by Milan judicial authorities on alleged charges of breaching the Italian National Workers Statute.

Sig. Cortesi denied today all charges which resulted from a lawsuit brought against him by trade union officials. The charges, dating back to 1976, relate to the alleged decision by the group not to enrol three workers.

The unions reportedly claim that enquiries into the private lives of the three candidates had been ordered by the car group, representing an infringement against the National Workers Statute.

The Alfa Romeo Board is to meet shortly to consider Sig. Cortesi's resignation. Sig. Cortesi is widely regarded here as one of the country's leading State sector managers.

One of the other managers sentenced by the Milan judicial authorities is Sig. Domenico Segala who was shot and wounded by ultra-left "Red Brigade" terrorists in Milan earlier this year.

The Alfa Romeo group has increasingly become a target of terrorist attacks, especially since it introduced Saturday overtime shifts to boost the production of a new car model.

State to put up $19m in steel group rescue

By Hilary Barnes

COPENHAGEN, May 29.

THE DANISH Government is to rescue the ailing Danish steel mill, Den Danske Staalvalsevaerk, by providing the company with Kr 108m ($19m) in subordinate loan capital, equivalent to the existing share capital, on condition that shareholders raise Kr 54m in new share capital.

The move follows an earlier offer from the Norwegian Government to acquire a controlling interest which was turned down by the major Danish shareholders.

The Danish plant was modernised between 1972 and 1974 with the aid of funds from the European Coal and Steel Community and is now regarded as among the most modern plants in Europe. Turnover last year totalled Kr 810m and the plant produced 672,000 tonnes of crude steel and 552,000 tonnes of finished steel with a labour force of about 2,500.

However, the steelworks, which is the only one in Denmark, has made accumulated losses of Kr 150m over the past three years. This situation led the Norwegian Government to make their offer to acquire the Danish plant in line with their present policy of industrial diversification.

A. P. Moeller and the Lauritzen shipping and ship building groups, the main shareholders in the steelworks, turned down the proposal and the Danish Government then announced its plan. In the agreement the Government will also provide credit guarantees.

SKF worker directors act

By Kenneth Gooding, Industrial Correspondent

TWO WORKER directors on the Board of SKF, the Swedish engineering group, have formally registered their "reservations" about the proposed dividend payment which is to be considered at the annual meeting tomorrow.

Mr. Goran Johansson, a full time official with metalworkers' union, and his deputy on the Board, Mr. Jan Pernstal, have suggested that the dividend be more than halved from the proposed SKr. 4.50 a share to SKr. 2.

This apparently is more a reaction to the current situation of SKF in Sweden itself rather than to worries about the group's financial position during the coming year.

Dividend increased at Tongaat

By Richard Rolfe

JOHANNESBURG, May 29.

THE DIVERSIFIED sugar group, Tongaat, which recently acquired control of the brick manufacturers, Primrose Industrial, has reported a modest rise in profits for the year ended March 31. On turnover up from R145m to R160m, pre-tax profits went ahead from R12.4m to R13.3m. Earnings per share have risen from 61.8 cents to 65.2 cents and with a 1 cent rise in the final, the total dividend is up from 24 cents to 25 cents, putting the shares, at 285 cents, on a yield of 8.8 per cent.

Tongaat accounts direct for about 9 per cent of South African sugar output and has further indirect interest through its shareholdings in Huletts Corporation. A year ago however, the annual report showed that Tongaat's non-sugar side—mainly embracing bricks and textiles—had exceeded the contribution of the sugar side to group profits.

The position as at March 31 this year is not yet clear, but the moves made to tie up control of Primrose Industrial and to merge it with Coronation Industrial, Tongaat's wholly owned brick producer, will almost certainly reduce further the importance of sugar.

Lion Match profits growth

By Our Own Correspondent

JOHANNESBURG, May 29.

LION MATCH, the quoted South African subsidiary of Wilkinson Match, has reported figures for its year to March 31 which compare favourably with those for the previous 15 month accounting period, with a particularly strong performance in the second half year. Turnover was R36m, against R38m, for 15 months and pre-tax profit R5.3m, against R5.6m. On an annualised basis, turnover is put at R30m, and pre-tax profits at R4.5m, for the 12 months to March 31, 1977, affording a better measure of the apparent growth in the latest period.

Earnings per share, before extraordinary charges of R0.7m, are struck at 34.9 cents compared with 34.6 cents for 15 months and an annualised 27.7 cents. The dividend is 17.5 cents, which compares with 19 cents for 15 months or 15.2 cents annualised, and the shares at 185 cents yield 9.6 per cent. Since June last year, the original Lion Match operations in the Republic, controlled by the old British Match Corporation, have included the local operations of Wilkinson Sword, whose entire issued share capital was acquired for R50,000, and which was not officially expected to have any material short-term effect on Lion Match.

BUSINESS AND INVESTMENT OPPORTUNITIES

READERS ARE RECOMMENDED TO TAKE APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

BUSINESSES FOR SALE

BUSINESSES WANTED

PLANT AND MACHINERY

CONFERENCES

CONTRACTS AND TENDERS

REPUBLIC OF PANAMA

INSTITUTO DE ACUEDUCTOS Y ALCANTARILLADOS NACIONALES
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
IDAAN — IBRD

PREQUALIFICATION NOTICE
POTABLE WATER PROJECT FOR COLON
MECHANICAL AND ELECTRICAL SUBCONTRACT

CONTRACT NO. COL 2A

It is hereby announced that the INSTITUTO DE ACUEDUCTOS Y ALCANTARILLADOS NACIONALES (IDAAN) or the Republic of Panama will receive applications for the prequalification of interested contractors, established in member countries of the International Bank for Reconstruction and Development (World Bank) and Switzerland, for the supply, erection and commissioning of all *mechanical and electrical equipment for a proposed new 4 million (US) gallon per day water treatment* plant, lake intake and pumping station at Colon.

The equipment at the Treatment Plant will comprise the following:

(i) Flat bottomed vertical flow clarifiers.
(ii) Rapid gravity filters with air and water backwashing arrangements.
(iii) Chemical handling and dosing for lime, alum, polyelectrolyte, activated carbon, sodium silico fluoride and gaseous chlorine. Dry feeders will be used where appropriate.
(iv) Instrumentation equipment to monitor, transmit, indicate and record tank water levels and rates of flow.
(v) 150 KW diesel generator for standby duty.
(vi) Internal pipework and valves.

The equipment at the Intake Pumping Station will comprise the following:

(vii) 2 No. 2.1. MGD electrically driven vertical turbine pumps with above base discharge: Total head 70 metres.
(viii) 2 No. 1.05 MGD electrically driven vertical turbine pumps with above base discharge: Total head 65 metres.
(ix) Surge protection equipment.
(x) 250 KW diesel generator for standby duty.
(xi) Switchgear and equipment to allow the pumps to be controlled remotely from the Treatment Plant.

The power supply for the above equipment will be 3 phase, 60 Hertz, 440 volts.

The successful contractor will be nominated as a subcontractor under the Main Civil Engineering Contract (for which separate prequalification will shortly be invited). The conditions of Contract for both the Main Contract (Contract No. COL 2) and for the nominated subcontract (Contract No. COL 2A) will be based on those published by the Federation Internationale des Ingenieurs—Conseils (FIDIC).

Payments to the nominated subcontractor will normally be made by the Main Contractor. Provision will however be made in the contract for IDAAN to make payments direct to the subcontractor in the event of the Main Contractor unreasonably withholding the payments due.

Payments for goods and services provided in the Republic of Panama will be made in Panamanian Balboas (presently at par with the U.S. Dollar) while goods and services provided elsewhere, outside the Republic of Panama, will be made in U.S. Dollars.

Funds for the project are being provided partially from Loan Number 1280-PAN signed with the International Bank for Reconstruction and Development (*World Bank—IBRD*).

It is presently expected that Tenders for the nominated subcontract will be invited in September, 1978, and that an order for the work will be placed by the Main Contractor in about February, 1979. It is expected that a total period of about twenty (20) months will be allowed for the manufacture, delivery, installation and commissioning of the equipment.

Tenders presented by Panamanian and foreign concerns will be required to conform to the rules governing Public Tender procedures which appear in the Fiscal Code (Código Fiscal) of the Republic of Panama.

Interested firms may now obtain copies of the prequalification questionnaire on payment of a non-reimbursable charge of fifty (50) Balboas or fifty (50) U.S. Dollars to IDAAN at the address given below. Two (2) sets of the documents should be completed and sent in a sealed envelope to:

The Executive Director
Instituto de Acueductos y
Alcantarillados Nacionales
Via Brasil
Apartado Postal 5234
Panamá 5, República de Panamá

The closing time for the receipt of questionnaires, by IDAAN, is 10.00 a.m. local time on 10th July, 1978.

CITY OF NEWCASTLE UPON TYNE

Tenders for Catering Concession
Banqueting Suite Civic Centre

The City Council invites tenders for the operation as from 1st September, 1978, of the catering concession for the Banqueting Suite, Civic Centre, comprising the Banqueting Hall with accommodation for 580 people or 600/700 people dancing, the Pandon Room with accommodation for 160/200 people and the Members Bar which, apart from its use by Members of the City Council, is used in conjunction with Banqueting Hall functions.

The Banqueting Suite has achieved a notable reputation in the field of catering since the opening of the Civic Centre in 1968 and the caterer appointed will undertake catering for banquets, conferences and similar functions, many of which are now regularly established occasions in the social life of the North East.

For further information and tender forms, returnable on or before 12 noon, Monday, 19th June, 1978, apply to L. Humphries, FRICS, FRVA, City Estate and Property Surveyor, Civic Centre, Newcastle upon Tyne, NE1 8PP. Tel. 0632-28520: Ext. 447.

THE DEMOCRATIC REPUBLIC OF THE SUDAN

RAHAD IRRIGATION PROJECT
CONTRACT R9/5A—TELECOMMUNICATIONS SYSTEM
NOTICE OF SECOND CALL FOR TENDERS

Tender documents will shortly be available for the supply of telecommunications equipment for the Rahad Irrigation Project, which is a new irrigation development of 126,000 hectares located on the east bank of the River Rahad some 180 to 300 km south-east of Khartoum.

The contract is the subject of international competitive tendering under the terms of agreements for financial aid negotiated between the Democratic Republic of the Sudan, the International Development Association, the Kuwait Fund for Arab Economic Development and the Saudi Development Fund Organisation.

A first call for tenders was made in February 1977 for a turnkey-type contract comprising the manufacture, delivery, erection and commissioning of a complete telecommunications network for the project. Tenders were received in May 1977 and were considerably above the provisions in the project financing. It has therefore been decided to change the procurement to supply c.i.f. for seven groups of items, with supervision of erection, where appropriate, by the manufacturers. Installation will be by the Sudan Department of Telecommunications under the overall supervision of the Project Consultants.

The procurement will comprise the following groups:

Group	Description
1	UHF radio system including masts/towers and antennae
2	VHF radio system including antennae
3	Carrier multiplex and VF telegraph equipment
4	Telephone exchanges and subscribers' apparatus
5	Power plant
6	Cables and accessories
7	Poles and fittings

Tenders will be invited for one or more complete Groups in the Contract.

PROSPECTIVE TENDERERS who should be firms specialising in the design, manufacture and installation of telecommunications systems, or their accredited agents, who wish to purchase *Tender Documents should apply in writing to* the Project Consultant with purchase money (non-refundable) equivalent to twenty pounds Sterling. Cheques, Orders or Bills of Exchange should be made payable to, and applications addressed to:

Sir M. MacDonald & Partners,
Demeter House, Station Road,
Cambridge CB1 2RS, U.K.

Alternatively, application may be made to the Consultant's Khartoum Office, P.O. Box 1754, Khartoum, Sudan, with purchase money equivalent to twenty pounds Sudanese.

Documents will be available free of charge to prospective tenderers who purchased documents in the first call to tenders, upon application to the Project Consultant.

The period allowed for preparing and delivering tenders will be twelve weeks from the date of first issue, which is expected to be during June 1978. No extension of tender period will be allowed to firms to whom issue of documents has been delayed because of late application.

Signed: Sayed Ibrahim Mohammed Ibrahim
Managing Director
Rahad Corporation
Democratic Republic of the Sudan

HOME-GROWN CEREALS AUTHORITY

Sale of Barley Ex Intervention Stocks

The Home-Grown Cereals Authority on behalf of the Intervention Board for Agricultural Produce has been instructed to sell by Tender barley from the Board's Intervention Stocks.

Sales will be ex-store and details of the stores, and other arrangements are embodied in a Notice of Invitation to Tender together with tendering forms which are available from:

Home-Grown Cereals Authority,
Hamlyn House, Highgate Hill,
London N19 5PR.
Tel. No. 01-263 3391

Stocks for sale are approximately as follows:

Store	Stock
Ely, Cambs.	3,331 Tonnes
Diss, Norfolk.	1,550 "
Hadleigh, Suffolk.	2,121 "
Hartlebury, Worcestershire.	1,718 "
Manby, Louth, Lincs.	8,076 "
Old Dalby, Melton Mowbray, Leicestershire.	4,402 "
Polmont, Falkirk, Scotland.	129 "

CLOSING DATE FOR TENDERS WILL BE 23RD JUNE 1978.

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Businessman's Diary

U.K. TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 31—June 3	Royal Bath and West Show	Shepton Mallet
June 2—4	Third Hot Rod and Custom Car Show	Belle Vue, Manchester
June 4—7	Lighting and Electrical Installation Exhibition	Wembley Conf. Centre
June 5—8	British Hospitals Exhibition	Olympia
June 5—8	Decorative products trade exhibition (Walpadex)	Nat. Exbn. Centre, B'ham
June 5—9	Ind. Process Cont. Instrumentation and Systems	U.S. Trade Center, W.1.
June 6—8	Print Fair '78	New Hort. Hall, S.W.1
June 6—8	International Word Processing Exbn. and Conf.	Wembley Conf. Centre
June 8—10	Royal Cornwall Show	Wadebridge
June 8—10	South of England Show	Ardingly, Sussex
June 8—17	The Fine Art and Antiques Fair	Olympia
June 11—15	Shopfitting, contract furnishing, kitchen and bathroom equipment, joint exhibition	Nat. Exbn. Centre, B'ham.
June 13—15	Three Counties Show	Malvern
June 14—18	International Fisheries and Marine Equip. Exbn.	Aberdeen
June 20—23	Royal Highland Show	Edinburgh
June 22	International Body Repair Industry Exbn. plus International Conf. on Crash Repair	Heathrow Hotel
June 25—29	First International Frozen Foods Conf. and Exbn.	Olympia
June 26—28	Temperature Measurement and Control Ex. & Conf.	Wembley Conf. Centre

OVERSEAS TRADE FAIRS AND EXHIBITIONS

June 2—11	International Trade Fair	Barcelona
June 4—8	Israel Technology Week	Jerusalem
June 5—10	Int. Exhibition of Machine Tools and Tools	Zagreb
June 5—10	British Industrial and Scientific Technology Exbn.	Seoul
June 12—16	World Congress on Automatic Control	Helsinki
June 13—21	Int. Rubber and Plastics Conference and Exbn.	Paris
June 15—18	Solar Energy Exbn. and Congress	Genoa
June 20—24	International Wire Exhibition	Basle
June 24—30	International Dairy Equipment Exbn. and Conf.	Paris
June 27—30	Public Transport Systems in Urban Areas, Exbn. and Conf.	Göteborg
July 2—9	International Rehabilitation of the Handicapped, Exbn. and Congress	Basle
July 4—6	Third Int. Conf. and Exbn. on Marine Transport using Roll-on/Roll-off Methods	Hamburg
July 10—14	First International South African Training and Education Symposium and Exhibition	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

June 1—2	EUROPMI (Organisation for small and medium sized enterprises in the EEC): The Future for Smaller Businesses in the European Community	Kensington Close Hotel W.8
June 1	Netherlands British Chamber of Commerce: Trading and Investment Opportunities in Dutch Limburg	King Street, Manchester
June 1—4	Assoc. Cambiste Internationale (org. of foreign exchange dealers): 20th Int. Congress—address by Pres. of Deutsche Bundesbank on current aspects of exchange rate policy	Munich
June 2—4	IPC Business Press: Commercial Motor's Vehicle Recovery Conf.	Bordon, Hants
June 4—9	British Association for Commercial and Industrial Education: Interpersonal Skills	Sackville Hotel, Hove
June 4—9	Centre for Educ. in International Management—The Senior Executive's Opportunities for Innovation	Geneva
June 5—6	Univ. of Pennsylvania: Management by Objectives—Fact versus Fiction	Hilton Hotel, London W.1
June 5—6	Oyez: British and European Direct Investment Chances in the United States	Hilton Hotel, London W.1
June 5—8	First Printed Circuit World Convention	Cafe Royal, London W.1
June 5—8	International Professional Security Association: 12th Annual Conference	Wembley Conf. Centre
June 5—9	Kepner Tregoe: Decision making for senior management	Farnborough
June 5—9	Abraxas: Synectics—Innovative Skills	8S Churchway, NW1
June 6	Canada-UK Trade Outlook	Pall Mall, SW1
June 6	Inst. of Purchasing and Supply: The Purchase Analyst as a Profit Generator	Gt. Russell Street, WC1
June 6—8	Oyez: Ass. of Insurance and Risk Managers in Industry and Commerce — International Insurance Conference	Hotel Inter-Continental W1
June 6—8	The Clothing Institute: Management course—Introduction to the Clothing Industry	Albert Road, NW4
June 7	Anthony Skinner Management: Added Value Sharing—Measuring and Rewarding Productivity	Café Royal, W1
June 8	Inbucon Group: National Policy and Pay Re-Structuring	Dorchester Hotel, W1
June 8	Good Industrial Relations: Corporate Strategies for Employment in the 1980's	Moorgate Place, EC2
June 8—9	Oyez: International Loan Documentation and Syndication	Int. Press Centre, EC4

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY MAY 30

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

TOMORROW, MAY 31

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

THURSDAY, JUNE 1

COMPANY MEETINGS—

[illegible]

FRIDAY, JUNE 2

COMPANY MEETINGS—

[illegible]

SUNDAY, JUNE 4

DIVIDEND & INTEREST PAYMENTS—

[illegible]

INTERNATIONAL BONDS

U.S. interest rates upset Eurobonds

BY FRANCIS GHILES IN LONDON AND DAVID LASCELLES IN NEW YORK

A DEEPLY pessimistic mood engulfed the Eurobond market last week. In the face of a further rise in U.S. interest rates, investors shied away from putting their money into bonds, preferring shorter term investments.

The only buoyant sector was Floating Rate Notes where the issue for Worms Bank was increased by $5m and the only new issue of the week was announced, $30m for the Arab Investment Bank.

Demand has also been strong for the National Westminster floater and although no decision to increase the amount had been taken last weekend, the book would give room for such a move.

Prices of Floating Rate Notes held up much better than those of straight bonds in the secondary market. Prices for straights fell over the week, despite a technical recovery on Thursday. All recent straight bonds fell to a discount in the aftermarket and AGA and Canadair, both priced earlier last week, were no exception. On Friday they were respectively quoted at 98-½ and 97-½.

Underwriters were left with varying proportions of recent offerings and the fall in prices reflected the liquidation of unsold bonds in the secondary market. A $60m bond for Commission Federal de Electricidad of Mexico was not confirmed (this bond offering is part of a much larger fund raising operation by the same borrower, the credit part of which has been confirmed: $400m for seven years on a spread of 1 per cent throughout, the lowest ever for a Mexican borrower in the present cycle, and a four year grace period. Lead manager is Westdeutsche Landesbank and joint lead managers include Citcorp, Credit Commercial de France and Morgan Guaranty.)

The only consolation compared with the last U.S. credit squeeze in 1974 is, according to some dealers, that the market is retreating in more orderly fashion.

By contrast with the uneventful atmosphere in the Eurobond market, the Yankee bond market in New York had its most active week in most dealers' memories. In just three days, the market absorbed $650m worth of new issues, a figure amounting to six times the weekly average, and at least two more issues are due before the month is out.

The immediate reason for this burst of activity was the rush to beat the rise in interest rates and inevitably the offerings proved slightly sticky as a result.

This was far less true of the Canadian issues which are so familiar that they scarcely qualify as Yankee bonds. But the Australian and particularly the Swedish ones had to be helped along with "overtrading," the practice of issuing new securities in exchange for old ones at artificially high prices.

Dealers blame this on several factors: the unusually high volume, the lack of familiarity of the borrower and the bonds maturities. This last point centres on the relative unpopularity at the moment of long-term bonds which are bought almost exclusively by American investors, compared to short-term bonds which enjoy the extra pulling power of foreign investors who are traditionally more accustomed to buying that kind of paper.

The Australians, sensing this, wisely restructured their offering to increase the amount of the short-term tranche of the bond from $150m to $175m and reduce the long-term tranche by an equivalent amount to $75m. The Swedes by contrast offered only 20 year bonds.

Another factor, though less important, is the trend in yield spreads between Yankee and U.S. Government bonds. The marked narrowing of yields visible earlier this month when yields on Yankee bonds rose more slowly than on domestic bonds has eased and this week they probably began to widen again.

In the non-dollar sectors of the eurobond market there was little activity. Prices of new Deutsche Mark issues fell to a discount in the secondary market, with some issues like Industrial Credit Bank of Japan, falling more heavily than others. There are now no new issues on offer in this sector of the market.

Prices weakened in the Swiss Franc sector also where two new issues were announced and a further issue, SwFr 20m for Oy Nokia of Finland is expected very soon.

The Japanese Finance Ministry meanwhile has approved DM 920m and SwFr 395m worth of new bonds to be floated by Japanese companies between July and September. The fate of the Deutsche Mark bonds however is uncertain so long as the new issue market in this sector remains closed. A decision on whether to reopen it will be taken next week in Frankfurt. Only one dollar denominated issue is planned by a Japanese company over the same period—for Tokyo Sanyo.

The total worth of these bonds, if they are all floated amounts to about $642m, a figure slightly over that for bonds to be floated in the three months to the end of June.

Saudi move—

A Saudi Ryal 200m for the Moroccan Banque Nationale du Commerce Exterieur was larger than issues denominated in this currency usually are. It was also confirmed last week that the Saudi Arabian Monetary Authority has asked major international banks to seek prior approval before arranging bonds, or for that matter loans, denominated in Saudi Ryals.

Saudi authorities are known to have reservations over the growing of non-Saudi institutional investors, whether they operate from off-shore financial centres in the Gulf or from elsewhere, in taking a role in transactions denominated in the kingdom's currency. Thus the latest attempt to curb the unchecked development of the Ryal as a bond instrument does not come as a complete surprise.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡††Australia	175	1983	5	8.45	100	Morgan Stanley	8.45
‡††Australia	75	1993	11	9⅛	99½	Morgan Stanley	9.17
††§Ito-Yokado	50	1993	—	*	*	Goldman Sachs	*
††Ito-Yokado	20	1983	5	*	*	Goldman Sachs	*
‡††Sweden	125	1998	12.94	9¼	99	Salomon Bros.	9.36
††CCCE (g'teed France)	75	1998	13	*	*	Dillon Read	*
‡Canadair	70	1983	5	8½	99	Merrill Lynch Int.	8.76
‡AGA	25	1988	7	9¼	100	Hambros	9.25
‡Dominion Bridge	25	1986	8	9	99	Orion	9.18
‡††Nova Scotia Power	75	2008	30	9⅝	99	Merrill Lynch	9.725
‡††Ontario Prov.	200	2008	30	9⅜	100	Salomon Bros.	9.375
††Finland	100	1985	7	*	*	Salomon Bros.	*
§Tyco Laboratories	20	1988	—	8¼/8¾	*	Kidder Peabody	*
**EIB	60	1986	¶	8⅞	disct.	Ist. Ban. S. Paolo	*
Nat. West	75	1986	8	9	*	County, CSWW, Orion	*
†Nat. West	125	1990	12	5¼‖	*	County, CSWW, Orion	*
†Banque Worms	30	1985	7	5¼‖	*	CSWW, First Chic.	*
†Arab Int. Bank	30	1983	5	6¼‖	*	UBAF	*
D-MARKS							
‡Ind. Bank of Japan	100	1984	5½	5	99½	Deutsche Bank	5.10
‡**Danish Export Fin.	100	1983	3	5¾	100	WestLB	5.75
GUILDERS							
‡Brazil	75	1983	5	7½	99½	ABN	7.62
SWISS FRANCS							
‡Norges Kommunalbk. (g'teed Norway)	100	1990	n.a.	4¼	99½	Banque Gutzwiller, Kurz, Bungener	4.305
‡Vorarlberger Kraft.	30	1993	n.a.	4	100	Credit Suisse	4.0
KUWAITI DINARS							
‡Ban. Nac. Cred. Rur.	10	1985/90	¶	8¼	100	KFT, CIC, Merr. Lynch Int.	8.25
BNA	7	1985/90	—	8½	*	KIC	*
SAUDI RYALS							
BNDE (g'teed Morocco)	200	1983	5	8⅛	100	UBAF	8.125

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ‖ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase fund.
Note: Yields are calculated on AIBD basis.

BONDTRADE INDEX AND YIELD

	May 26		May 19		1978 High	1978 Low
Medium term	99.41	7.96	99.62	7.87	99.84 (19/4)	99.15 (16/2)
Long term	93.46	8.61	93.71	8.38	94.07 (19/4)	93.03 (13/1)

EUROBOND TURNOVER

(nominal value in $m)

	U.S. dollar bonds last week	U.S. dollar bonds previous week	Other bonds last week	Other bonds previous week
Euroclear	1,634.5	1,073.8	385.2	310.1
Cedel	497.1	393.1	213.8	285.2

LEGAL NOTICES

No. 001572 of 1978

In the HIGH COURT OF JUSTICE Chancery Division Companies Court. In the Matter of INTEGRATED RECLAMATION AND DREDGING COMPANY LIMITED and in The Matter of the Companies Act 1948.

NOTICE IS HEREBY GIVEN that a Petition for the winding up of the above-named Company by the High Court of Justice [illegible]

ROBINS OLIVEY & LAKE, [illegible] Solicitors for the Petitioner.

No. 001527 of 1978

In the HIGH COURT OF JUSTICE Chancery Division Companies Court. In the Matter of CRAWAY SECURITIES LIMITED and in the Matter of The Companies Act, 1948.

NOTICE IS HEREBY GIVEN, that a Petition for the Winding up of the above-named Company by the High Court of Justice [illegible]

LEWIS, LEWIS & CO., [illegible] Solicitors for the Petitioner.

COMPANY NOTICES

ENERGY INTERNATIONAL N.V. [illegible]

PERSONAL

[illegible]

MOTOR CARS

[illegible]

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ART GALLERIES

[illegible]

World Value of the Pound

The table below gives the latest available rates of exchange for the pound against various currencies on May 26, 1978. In some cases rates are nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Exchange in the UK and most of the countries listed is officially controlled and the rates shown should not be taken as being applicable to any particular transaction without reference to an authorised dealer.

Abbreviations: (S) member of the sterling area other than Scheduled Territories; (k) Scheduled Territory: (o) official rate: (F) free rate; (T) tourist rate; (n.c.) non-commercial rate; (n.a.) not available; (A) approximate rate no direct quotation available; (sg) selling rate; (bg) buying rate; (nom.) nominal; (exC) exchange certificates rate; (P) based on U.S. dollar parities and going sterling dollar rate; (Bk) bankers' rate; (Bas) basic rate; (cm) commercial rate; (cn) convertible rate; (fn) financial rate.

Sharp fluctuations have been seen lately in the foreign exchange market. Rates in the table below are not in all cases closing rates on the dates shown.

Place	Local Unit	Value of £ Sterling
Afghanistan	Afghani	81.00
Albania	Lek	10.101
Algeria	Dinar	7.520
Andorra	French Franc	8.44½
	Spanish Peseta	146.95
Angola	Kwanza	n.a
Antigua (S)	E. Caribbean $	4.90
Argentina	Ar. Peso Free Rate	1.400
Australia (S)	Australian $	1.620
Austria	Schilling	27.65
Azores	Portug. Escudo	83.15
Bahamas (S)	Ba. Dollar	1.8125
Bangladesh (S)	Taka	28.025
Bahrain (S)	Dinar	0.702
Balearic Isles	Spa. Peseta	146.95
Barbados (S)	Barbados $††	3.65
Belgium	B. Franc	(cm)60.20 (fn)69.95
Belize	B $	3.65
Benin	C.F.A. Franc	422.25
Bermuda (S)	Bda. $	1.8125
Bhutan	Indian Rupee	15.283
Bolivia	Bolivian Peso	36.50
Botswana (S)	Pula	1.501
Brazil	Cruzeiro ‡‡	31.94
Br. Virgin Is (S)	U.S. $	1.8125
Brunei (S)	Brunei $	4.2573
Bulgaria	Lev	1.6561
Burma	Kyat	12.587
Burundi	Burundi Franc	164.17
Cameroon Rp	C.F.A. Franc	422.25
Canada	Canadian $	2.0185
Canary Isles	Spanish Peseta	146.95
Cape Verde I.	Cape V Escudo	83.15
Cayman Is (S)	Cay. I. $	1.515
Cent. Af. Rep.	C.F.A. Franc	422.25
Chad	C.F.A. Franc	422.25
Chile	C. Peso	(Bk) 49.58
China	Renminbi Yuan	3.1554
Colombia	C. Peso	(F) 69.02
Comoro Is	C.F.A. Franc	422.25
Congo (B'ville)	C.F.A. Franc	422.25
Costa Rica	Colon	15.59
Cuba	Cuban Peso	1.3856
Cyprus (S)	Cyprus £	0.7075
Czechoslovak.	Koruna	(com)9.95 (cm)19.90 (T)18.89
Denmark	Danish Krone	10.34½
Djibouti	Fr.	310
Dominica (S)	E. Caribbean $	4.90
Domin. Rep.	Dominican Peso	1.8125
Ecuador	Sucre	(O)45.01 (F)47.15
Egypt	Egyptian £	(O)0.754 (T) 1.275
Ethiopia	Ethiopian Birr	(P)3.756
Eq'l Guinea	Peseta	146.95
Falkland Is. (S)	Falkland Is. £	1.0
Faro Is	Danish Krone	10.34½
Fiji Is	Fiji $	1.589
Finland	Markka	7.83
France	French Franc	8.44½
Fr. C'ty in Af*	C.F.A. Franc	422.25
Fr. Guiana	Local Franc	8.44½
Fr. Pac. Is	C.F.P. Franc	155.54
Gabon	C.F.A. Franc	422.25
Gambia (S)	Dalasi	4.00
Germany (East)	Ostmark	3.84¾

Place	Local Unit	Value of £ Sterling
Germany West	Deutschmark	3.84¾
Ghana (S)	Cedi	2.04(sg)
Gibraltar (K)	Gibraltar £	1.00
Gilbert Is	Aust. Dollar	1.620
Greece	Drachma	68.284
Greenland	Danish Kroner	10.34½
Grenada (S)	E. Caribbean $	4.90
Guadaloupe	Local Franc	8.44½
Guam	US $	1.8125
Guatemala	Quetzal	1.8125
Guinea Rep.	Sily	37.573
Guinea Bissau		83.25
Guyana (S)	Guyanese $	4.622
Haiti	Gourde	9.06
Honduras Rep	Lempira	3.64
Hong Kong (S)	H.K. $	8.454
Hungary	Forint	(com) 72.66 (T)(nc)58.35
Iceland (S)	I Krona	470.00
India (S)	Ind. Rupee	15.283
Indonesia	Rupiah	752.2
Iran	Rial	(A) 127
Iraq	Iraq Dinar	0.5336
Irish Rep (k)	Irish £	1.00
Israel	Israel £	31.31
Italy	Lira	1,560
Ivory Coast	C.F.A. Franc	422.25
Jamaica (S)	Jamaica Dollar	2.810
Japan	Yen	403½
Jordan (S)	Jordan Dinar	0.563 (sg)
Kampuchea	Riel	217.5
Kenya (S)	Kenya Shilling	14.408
Korea (Nth)	Won	1.6949(!)
Korea (Sth)	Won	876.28
Kuwait (Sth)	Kuwait Dinar	0.504
Laos	Kip Pot Pol	362.5
Lebanon	Lebanese £	5.511
Lesotho	S. African Rand	1.5734
Liberia	Liberian $	1.8125
Libya	Libyan Dinar	(P)0.536
Liechtenstein	Swiss franc	3.55¾
Luxembourg	Lux Franc	59.95
Macao	Pataca	9.08
Madeira	Portug'se Escudo	83.15
Malagasy Rp.	MG Franc	422.25
Malawi (S)	Kwacha	1.5735
Malaysia (S)	Ringgit	4.354
Maldive Is (S)	Mal Rupee	7.12
Mali Rp.	Mali Franc	844.5
Malta (S)	Maltese £	0.7280
Martinique	Local Franc	8.44½
Mauritania	Ouguiya ‡	84.71
Mauritius (S)	M. Rupee	11.5423
Mexico	Mexican Peso	41.07
Miquelon	C.F.A. Franc	422.25
Monaco	French Franc	8.48½
Mongolia	Tugrik	(O)5.8444(!)
Montserrat	E. Caribbean $	4.90
Morocco	Dirham	7.76(sg)
Mozambique	Moz. Escudo	60.245
Nauru Is	Aust. Dollar	1.602
Nepal	Nepalese Rupee	21.75
Netherlands	Guilder	4.11½
Neth. Ant'les	Antillian Guild.	3.244
New Hebrides	Franc	156.5
	Austl. Dollar	1.602
N. Zealand (S)	N.Z. Dollar	1.798
Nicaragua	Cordoba	12.72
Niger Rp.	C.F.A. Franc	422.25
Nigeria (S)	Naira	1.18118
Norway	Nrwg. Krone	9.92½
Oman Sultanate of (S)	Rial Omani	0.626
Pakistan	Pkst. Rupee	17.95
Panama	Balboa	1.8125
Papua N.G. (S)	Kina	1.3174

Place	Local Unit	Value of £ Sterling
Paraguay	Guarani	225.89
P'ple's D. Rp of Yemen (S)	S. Yemen Dinar	(A)0.619
Peru	Sol	exc(A)271.83
Philippines	Ph. peso	13.345
Pitcairn Is (S)	£ sterling	—
	New Zealand $	1.798
Poland	Zloty	(Cm)61.00 (T)61.00
Portugal	Port. Escudo	83.15
Port Timor	Timor Escudo	83.15
Principe Isle	Port. Escudo	83.15
Puerto Rico	U.S. $	1.8125
Qatar (S)	Qatar Ryal	7.02
Reunion Ile de la	French Franc	8.44½
Rhodesia	Rhodesian $	1.257
Romania	Leu	(cm)8.49 (nc)T22.79
Rwanda	Rwanda Franc	168.57
St. Christopher (S)	E. Caribbean $	4.90
St. Helena	St. Helena £	1.0
St. Lucia	E. Caribbean $	4.90
St. Pierre	C.F.A. Franc	422.25
St. Vincent (S)	E. Caribbean $	4.90
Salvador El	Colon	4.53
Samoa (Am.)	U.S. $	1.8125
San Marino	Italian Lire	1,560
Sao Tome	Port. Escudo	83.15
Saudi Arabia	Ryal	6.25
Senegal	C.F.A. Franc	422.25
Seychelles	S. Rupee	13.35
Sierra Leone (S)	Leone	2.0
Singapore (S)	Singapore $	4.2573
Solomon Is (S)	Solomon Is. $	1.602
Somali Rep.	Som Shilling	(A)11.41
Sth. African (S)	Rand	1.5734
S. W. African Territories (S)	S. A. Rand	1.5734
Spain	Peseta	146.95
Spain, Ports in North Africa	Peseta	146.95
Sri Lanka (S)	S. L. Rupee	28.18
Sudan Rp.	Sudan £	(A)0.6511
Surinam	S. Gilder	3.244
Swaziland (S)	Lilangeni	1.5734
Sweden	S. Krona	8.485
Switzerland	Swiss Franc	3.55¾
Syria	Syria £	(A)7.114
Taiwan	New Taiwan $	(P)68.9
Tanzania (S)	Tan. Shilling	14.40
Thailand	Baht	36.75
Togo Rp.	C.F.A. Franc	422.25
Tonga Is (S)	Pa'anga	1.509
Trinidad (S)	Trin. & Tobago	4.35
Tunisia	Tunisian Dinar	0.757(sg)
Turkey	Turkish Lira	45.75
Turks & C's	U.S. $	1.8125
Tuvalu	Australian £	1.602
Uganda (S)	Ug. Shilling	14.05
United States	U.S. Dollar	1.8125
Uruguay	Uruguay Peso	(cm)10.42 (fn)10.56
Utd. A'b Emis.	U.A.E. Dirham	7.02
U.S.S.R.	Rouble	1.27
Upper Volta	C.F.A. Franc	422.25
Vatican	Italian Lire	1,560
Venezuela	Bolivar	7.77
Vietnam Nth	Dong	(O)4.236 (T)4.1503(!)
Vietnam (Sth)	Piastre	3.555
Virgin Is. U.S.	U.S. Dollar	1.8125
Western Samoa (S)	Samoan Tala	1.1064
Yemen	Ryal	8.52(sg)
Yugoslavia	New Y Dinar	34.22
Zaire Rp	Zaire	1.494645
Zambia	Kwacha	1.436

* That part of the French community in Africa formerly part of French West Africa or French Equatorial Africa.
† Rupees per pound.
‡ The Auguiya has replaced the CFA franc. The exchange was made at a rate of CFA Fr 5 to one unit of the new currency.
§ General rates of oil and iron exports 76 125.
‖ Based on cross rates against Russian rouble.
** Rate is the Transfer market (controlled).
†† Rate is now based on 2 Barbados $ to the dollar.
‡‡ Now one official rate.

OVERSEAS MARKETS

Paris broadly higher in active trade

BY OUR OWN CORRESPONDENT

PARIS, May 29.

STOCKS ON the Paris market continued to advance across the board to-day in active trading, the Bourse Industrial index ending 2.0 higher at a 1978 peak of 70.0.

Encouraging investors was the ¼ point cut in Call Money to 7⅛ per cent and optimism about the new measures to help investment in shares, due to be announced later this week.

All U.S. stock markets were closed for the Memorial Day holiday.

Trading was active, with operators paying little attention to the probable sharper rise in the April retail price index, which is expected to be announced tomorrow. This is outweighed by hopes regarding the return to industrial price freedom, which is due to take effect from June 1.

Gains ranged as high as 14 per cent, and among the stronger movers were **Mumm, GTM, Peugeot, Kleber, Kali, Poclain, Generale de Fonderie, Carrefour, Saunier Duval, CEM, Marine Wendel, Cotelle, Dollfus-Mieg, Imetal, BSN Gervais Danone** and **BIC**.

TOKYO—Share prices were firmer for choice in very thin trading, with speculatives and low-priced issues attracting the most interest. The Nikkei-Dow Jones Average edged up 4.67 to 5,439.94, with volume amounting to 150m shares.

Investors generally sat on the sidelines, partly because of the Stock Exchange's suspension of trading in **Fujisash Industries** and **Fujisash Sales** following a Press report stating that the two companies covered up losses in false financial statements.

Textiles, Department Stores and some Foods gained ground, reflecting a recovery in personal spending, while Machines and several Pharmaceuticals were also higher.

GERMANY — Stock prices generally made progress in light trading, with the Commerzbank index climbing 4.9 to 773.3. Dealers said some of the bullish atmosphere on the market could be attributed to the slight fall-back of the dollar in foreign exchange trading.

Bank shares led the market upwards, with **Commerzbank** adding DM1.70, **Deutsche Bank** DM3.20 and **Dresdner Bank** DM 1.50.

Elsewhere, **KHD**, despite its expectations of a quieter year with lower net profits, gained DM1.90, while **Schering**, shrugging aside news of parent company 1977 net profits of DM59.6m, compared with DM64.7m a year ago, rose DM3.

BBC and **BMW** firmed DM3 apiece, while **BASF** put on DM 1.80, but **AEG** lost DM1.20.

Public Authority Bonds sustained fresh losses extending to 50 pfennigs, while the Regulating Authorities bought a nominal DM67m of paper (DM94.7m).

AUSTRALIA — Industrials turned easier-inclined after recent strength, but leading Mining and speculative shares pushed further ahead, spurred on by increased overseas buying.

Among Golds, **Consolidated Goldfields** advanced 10 cents to A$3.85 and **Central Norseman** 30 cents to A$9.60. Elsewhere in Minings, **Northern Mining** rose 18 cents to A$1.53, **Queensland Mines** 10 cents to A$2.60, **Peko-Wallsend** 14 cents to A$5.54, **Bougainville Copper** 6 cents to A$1.42, and **Spargos Exploration** 7 cents to 48 cents. However, **Pancontinental** relinquished 20 cents to A$14.50.

Industrial leader **BHP** gave up 4 cents to A$7.02, while **Bank of NSW** shed 4 cents to A$5.96 and **ANZ** 5 cents to A$3.20, but **CSR**, ahead of interim results due this week, put on 5 cents to A$3.00.

Tooth firmed 6 cents to A$1.91 on its take-over of **Courage**, but the latter came back 4 cents to 36 cents. **Amatil**, which sold a large parcel of Courage shares to Tooth, moved ahead 9 cents to A$2.25.

The take-over prompted more speculation about a bid for **Tooheys**, which rose 10 cents to A$1.70, while **Philip Morris**, the purported likely bidder, receded 10 cents to A$7.

CANADA—Markets finished on a mixed note again following a quiet trading session. The Toronto Composite index was 0.5 easier at 1,122.0, although gains outscored losses on the Toronto SE by 217 to 176. Oils and Gas shed 3.5 to 1,352.1 and Banks 0.73 to 273.16, but Golds put on 2.3 to 1,379.4 and Utilities 0.90 to 173.62.

Among companies reporting higher earnings, **Automotive Hardware "A"** rose ⅜ to C$14¼, **House of Braemore** 58 cents to C$3, **Stuart House** 20 cents to C$3, and **Prefac "A"** 18 cents to 98 cents.

SWITZERLAND — Shares were irregular with a dull bias, adversely affected by the continued weakness of the dollar against the Swiss franc, with export-orientated stocks particularly undermined.

In Transports, however, **Swissair** rose 6 to SwFr 829 on its monthly results, while Financials had **Oerlikon-Buehrle** up 30 at SwFr 2,520, bolstered by 1977 results.

Moevenpick Bearer, traded for the first time, opened at SwFr 3,100 and closed at SwFr 3,050. In Insurances, **Zurich Versicherung** were quoted ex-rights at SwFr 10,125.

AMSTERDAM — Bourse prices tended to improve afresh, with Shippings and Transports leading the way.

Akzo added 0.9 at Fl 31.3 among Dutch Internationals, but **Unilever** was a dull spot at Fl 112.5, off 1.1. State Loans were steady.

HONG KONG—Market continued to decline on local profit-taking in moderately active trading. The raising of US Prime rates to 8¾ from 8½ per cent and anticipation of a further rise in the Hong Kong Prime lending rate later this year contributed to the bearish tone.

Hong Kong Bank eased 10 cents to HK $15.40, **Jardine Matheson** 30 cents to HK $13.00, **Hong Kong Land** 10 cents to HK $7.75, and **Swire Pacific** 15 cents to HK $6.30, but **Wheelock Marden** gained 2.5 cents to HK $2.475.

JOHANNESBURG—Gold shares closed narrowly mixed after slack trading, activity having been limited by the spring Bank Holiday in the UK.

In Platinums, **Rustenburg** shed 4 cents to R1.33, while Coppers were between 5 and 10 cents lower. Sugar issue **Tongaat** rose 20 cents to R3.05 in response to the results.

MILAN—Easier in thin dealings on profit-taking, but **Olivetti Privileged** rose 18 to L1,100.

BRUSSELS—Local issues were mainly in easier vein after quiet trading, although **UCB** appreciated 16 to BFr 938 and **Union Miniere** 26 to BFr 806.

Indices

NEW YORK -DOW JONES

	May 26	May 25	May 24	May 23	May 22	May 19	1978 High	1978 Low	Since compilat'n High	Since compilat'n Low
Industrial	851.69	855.41	857.82	846.29	855.42	846.85	858.37 (17/5)	742.12 (28/2)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds*	88.19	88.25	88.19	88.31	88.51	88.47	90.36 (4/1)	88.19 (24/5)	—	—
Transport	225.70	224.14	224.68	227.80	231.30	229.16	231.30 (22/5)	199.31 (9/1)	279.88 (7/2/69)	13.23 (8/7/32)
Utilities	104.47	104.55	104.03	104.36	104.67	104.26	110.98 (3/1)	102.84 (22/2)	163.32 (20/4/69)	10.58 (28/4/42)
Trading vol. 000's	21,410	28,410	31,460	33,230	28,700	34,360	—	—	—	—

*Basis of index changed from August 24

Ind. div. yield %	May 19	May 12	May 5	Year ago (approx.)
	5.48	5.51	5.61	4.69

STANDARD AND POORS

	May 26	May 25	May 24	May 23	May 22	May 19	1978 High	1978 Low	Since Compilat'n High	Since Compilat'n Low
‡Industrials	106.78	107.05	107.56	108.47	109.70	108.52	110.51 (17/5)	95.52 (6/3)	134.64 (11/1/73)	3.52 (30/6/32)
§Composite	96.58	96.80	97.08	98.05	99.09	98.12	99.60 (17/5)	86.90 (6/3)	125.85 (11/1/73)	4.40 (1/6/32)

	May 17	May 10	May 3	Year ago (approx.)
Ind. div. yield %	4.85	5.04	5.02	4.34
Ind. P/E Ratio	9.53	9.16	9.18	10.57
Long Govt. Bond yield	8.42	8.45	8.39	7.72

N.Y.S.E. ALL COMMON

May 26	May 25	May 24	May 23	1978 High	1978 Low
54.14	54.24	54.56	54.90	56.68 (17/5)	48.37 (6/3)

Rises and Falls

	May 26	May 25	May 24
Issues traded	1,870	1,906	1,895
Rises	588	648	300
Falls	829	806	1,246
Unchanged	453	452	349
New Highs	39	10	21
New Lows	62	62	60

MONTREAL

	May 29	May 26	May 25	May 24	1978 High	1978 Low
Industrial	180.74	180.88	181.71	181.02	185.81 (23/5)	162.80 (16/2)
Combined	180.01	189.97	180.56	180.07	192.66 (23/5)	170.82 (30/1)

TORONTO

	May 29	May 26	May 25	May 24	1978 High	1978 Low
Composite	1122.0	1122.5	1123.4	1127.0	1136.5 (23/5)	998.2 (30/1)

JOHANNESBURG

	May 29	May 26	May 25	May 24	1978 High	1978 Low
Gold	210.6	210.7	211.5	211.9	218.7 (1/3)	185.0 (30/4)
Industrials	223.7	224.6	224.6	224.4	224.8 (26/5)	194.3 (13/5)

	May 29	Pre-vious	1978 High	1978 Low
Australia(¶)	499.73	499.65	499.73 (29/5)	441.19 (1/3)
Belgium (‖)	96.23	96.00	101.16 (8/5)	95.46 (23/5)
Denmark (**)	95.09	95.19	98.15 (4/1)	94.00 (6/2)
France (††)	70.0	68.0	70.0 (29/5)	47.5 (6/2)
Germany(‡‡)	773.3	768.4	812.1 (10/2)	759.4 (17/5)
Holland (§§)	84.8	83.9	84.8 (29/5)	76.0 (4/4)
Hong Kong (¶¶)	464.31	468.70	471.14 (24/5)	383.44 (13/1)
Italy (‖‖)	62.97	63.18	64.25 (22/5)	55.46 (10/1)
Japan (a)	407.21	407.08	410.11 (19/4)	364.04 (4/1)
Singapore (b)	316.71	316.71	316.71 (29/5)	262.0 (1/3)
Spain (d)	—	103.66	110.78 (9/5)	87.89 (17/3)
Sweden (e)	370.56	371.31	397.95 (3/5)	325.74 (6/1)
Switzerl'd (f)	291.2	291.5	323.7 (14/2)	279.0 (25/4)

Indices and base dates (all base values 100 except NYSE All Common — 50 Standards and Poors — 10 and Toronto 300-1,000, the last named based on 1975). † Excluding bonds. ‡ 400 Industrials § 400 Inds., 40 Utilities, 40 Finance and 20 Transport. (¶) Sydney All Ord (‖) Belgian SE 31/12/63. (**) Copenhagen SE 1/1/73. (††) Paris Bourse 1961 (‡‡) Commerzbank Dec., 1953 (§§) Amsterdam, Industrial 1970. (¶¶) Hang Seng Bank 31/7/64. (‖‖) Milan 2/1/73 (a) Tokyo New SE 4/1/68. (b) Straits Times 1966 (c) Closed. (d) Madrid SE 30/12/77 (e) Stockholm Industrial 1/1/58 (f) Swiss Bank Corp (u) Unavailable.

OVERSEAS SHARE INFORMATION

Inv. $ Prem. $2.60 to £—110½% (110½%)
Effective rate (1.8125) 46⅛% (46⅛%)

NEW YORK

[illegible]

CANADA

[illegible]

GERMANY ◆

[illegible]

AMSTERDAM

[illegible]

COPENHAGEN ♣

[illegible]

VIENNA

[illegible]

TOKYO ¶

[illegible]

Source Nikko Securities, Tokyo

BRUSSELS/LUXEMBOURG

[illegible]

SWITZERLAND ●

[illegible]

MILAN

[illegible]

AUSTRALIA

[illegible]

PARIS

[illegible]

STOCKHOLM

[illegible]

OSLO

[illegible]

BRAZIL

[illegible]

Vol. Cr. 118.9m. Shares 35.8m. Source: Rio de Janeiro SE.

JOHANNESBURG

MINES

[illegible]

INDUSTRIALS

[illegible]

Securities Rand US$0.71¼
(Discount of 37.8%)

SPAIN ♥

[illegible]

HONG KONG

Hong Kong$	May 26	May 19
Govt. Loan 1948	—	—
Amalgamated Rubber	†2.20	‡2.40
Bowaters	—	—
China Light & Power	22.60	21.80
City Hotels	†40.25	40.25
Cosmopolitan Properties	1.798	‡1.82
Cross Harbour Tunnel	†11.5	11.50
E. Asia Navigation	†4.125	4.175
Hong Kong Aircraft	62.00	60.00
Hong Kong Electric	4.775	4.70
HongKongKowloonWharf	19.30	19.60
Hong Kong Land Invest	7.85	7.85
Hong KongShanghai Bank	15.50	15.10
HongKongShanghaiHotls	14.60	13.90
Hutchison Whampoa	4.55xd	4.50
Inter. Pacific Securities	†6.75	—
Jardine Matheson	13.30	13.20
Jardine Secs	†6.75	6.80
Rubber	3.20	3.125
Sime Darby	†4.20	4.20
Southn. Pac. Prop.	—	—
Southsea Textile	—	—
Swire Pacific A	6.45	6.45
Textile Alliance	—	—
TextileCorp of Hong Kong	—	—
Wheelock Marden	2.45	2.475
Wheelock Maritime	‡3.30	3.20
Winsor Industrial	2.60	2.65
Wynor	—	—

xd Ex-dividend † Buyer. ‡ Seller.

NOTES: Overseas prices shown below exclude $ premium. Belgian dividends are after withholding tax.
◆ DM50 denom. unless otherwise stated; yields based on net dividends plus tax.
♥ Ptas.500 denom. unless otherwise stated.
♣ Kr.100 denom. unless otherwise stated.
● Frs.500 denom. and Bearer shares unless otherwise stated. ¶ Yen 50 denom. unless otherwise stated. ≠ Price at time of suspension. a Florins. b Schillings. c Cents d Dividend after pending rights and/or scrip issue. e Per share. f Francs. g Gross. div. %. h Assumed dividend after scrip and/or rights issue. k After local taxes. m % tax free. n Francs: including Unilac div. p Nom. q Share split. s Div. and yield exclude special payment. t Indicated div. u Unofficial trading v Minority holders only. y Merger pending. * Asked. † Bid. § Traded ‡ Seller. z Assumed. xr Ex rights. xd Ex dividend xc Ex scrip issue. xa Ex all. Δ Interim since increased.

MONEY + EXCHANGES

May 26 1978	Sterling Certificate of deposits	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposit	Treasury Bills ◆	Eligible Bank Bills ◆	Fine Trade Bills ◆
Overnight	—	8¼-11	—	—	—	8⅝	6¾-9	—	—	—
2 days notice	—	—	8½-8⅝	—	—	—	—	—	—	—
7 days or 7 days notice	—	8¼-8⅝	8⅝-8¾	—	8⅞-9	8¾	7¾-8½	—	—	—
One month	9-8⅞	9⅛-9⅛	8¾-8⅞	9⅜-9	9-9¼	9½	8½-8½	8⅞	8¾	9⅛
Two months	9⅛-9	9⅛-9⅛	—	9⅜-9¼	9⅜-9⅝	—	8⅝-8½	8⅞-8⅞	8⅞-8⅞	9¼
Three months	9⅛-9⅛	9⅜-9⅜	9¼-9⅝	9¼-9	9⅝-9⅞	9⅞	8⅝	8⅝-8½	9-9⅛	9⅜
Six months	9⅛-9½	9⅝-9⅝	9½-9⅞	9¼-8⅞	9⅝-9⅞	—	—	—	9⅛-9⅛	10
Nine months	9⅛-9⅝	9⅞-10⅛	—	9¾-9⅝	10¼	—	—	—	—	—
One year	9⅛-9⅛	10-10⅛	10	9⅞-9½	10⅜	—	—	—	—	—
Two years	—	—	10⅞-11	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days' fixed. Long-term local authority mortgage rate nominally three years 11⅛-11¼ per cent; four years 11¾ per cent; five years 12⅛-12⅛ per cent. ◆ Bank bill rates in table are buying rates for prime paper. Buying rates for four-months bank bills 9⁵⁄₁₆-9⅛ per cent; four-month trade bills 9⅝ per cent.
Approximate selling rates for one-month Treasury bills 8⁵⁄₁₆ per cent; two-month 8⅝ per cent; and three-month 8⅞-8²⁹⁄₃₂ per cent. Approximate selling rate for one-month bank bills 8⁹⁄₁₆-8⅝ per cent; and two-month 8⅝ per cent; and three-month 8⅞-8²⁹⁄₃₂ per cent. One-month trade bills 9 per cent; two-month 9¼ per cent and also three-month 9¼-9⅜ per cent.
Finance House Base Rates (published by the Finance Houses Association) 7¼ per cent from May 1, 1978. Clearing Bank Deposit Rates (for small sums at seven days' notice) 6 percent. Clearing Bank Base Rates for lending 9 per cent. Treasury Bills: Average tender rates of discount 8.4523pc.

FOREIGN EXCHANGES

May 26	Bank Rate %	Market Rates Day's Spread	Market Rates Close
New York	7	1.8065-1.8140	1.8120-1.8150
Montreal	8½	2.0160-2.0218	2.0180-2.0190
Amsterdam	4	4.10½-4.12½	4.11-4.12
Brussels‡	5½	59.30-60.10	59.80-60.00
Copenhagen	9	10.53½-10.55½	10.54-10.55
Frankfurt	3	3.83½-3.85½	3.84½-3.85½
Lisbon	18	82.70-83.50	82.90-83.40
Madrid	8	146.85-147.05	146.90-147.00
Milan	11½	1,577-1,581	1,579¾-1,580¾
Oslo	7	9.89-9.95	9.92-9.93
Paris	9½	8.43½-8.46	8.44-8.45
Stockholm	7	8.47½-8.49½	8.48-8.49
Tokyo	3½	407-415	408½-410½
Vienna	5½	27.68-27.75	27.60-27.70
Zurich	1	3.53-3.55½	3.55½-3.54½

‡ Rates given for convertible francs. Financial francs 60.10-60.30.

CURRENCY RATES

	Special Drawing Rights May 26	European Unit of Account May 26
Sterling	0.670263	0.670889
US dollar	1.21351	1.21922
Canadian	1.35114	1.36231
Austria sch	18.5272	18.6351
Belgian franc	40.1939	40.2758
Danish krone	6.92982	6.93239
Deutschem'rk	2.57671	2.57717
Dutch guilder	2.75725	2.75783
French franc	5.65766	5.65795
Italian lira	1057.61	1060.57
Japanese yen	274.208	274.393
Norway krone	6.64287	6.66448
Spain peseta	98.4055	98.5848
Swedish krone	5.67829	5.69444
Swiss franc	2.37421	2.36366

GOLD MARKET

	May 26	May 25
Gold Bullion (a fine ounce) Close	$179½-180¼	$178-178½
Opening	$179¼-180	$179¼-180¼
Morning fix'g	$178.95 (£98.840)	$179.35 (£98.945)
Aftern'n fix'g	$179.45 (£98.980)	$178.60 (£98.538)
Gold Coins domestically Krugerrand	$184-186 (£101½-102½)	$185½-186½ (£101½-102½)
N'w Sov'gns	$52-54 (£28¾-29¾)	$54½-56½ (£30-31)
Old Sov'gns	$54½-56½ (£30-31)	$54¼-56¼ (£30-31)
Gold Coins (Internat'lly) Krugerrand	$184½-186½ (£101½-102½)	$183¾-185¾ (£101-102)
New Sov'rgns	$51½-53½ (£28½-29½)	$52¼-54¼ (£29-30)
Old Sov'rgns	$54½-56½ (£30-31)	$54¼-56¼ (£30-31)
$20 Eagles	$273½-276¼	$272¾-275¾

OTHER MARKETS

[illegible]

EXCHANGE CROSS-RATES

May 29	Frankfurt	New York	Paris	Brussels	London	Amst'd'm	Zurich
Frankfurt	—	3.1118-1128	45.48-58	6.397-407	3.838-848	93.40-60	109.15-25
New York	47.23-26	—	21.51-57	3.0250-030	1.8160-8170	44.17-19	51.55-60
Paris	219.35-83	4.632-44	—	14.041-075	8.425-445	204.51-5.31	239.28-78
Brussels	15.61-68	33.00-05	7.11-13	—	59.95-60.11	14.59-63	17.03-08
London*	1.8425-525	1.812-815	8.44-45	59.90-60.0	—	4.11-12	3.53½-54½
Amsterdam	105.38-7.06	2.2602-2627	48.725-775	6.8505-8565	—	—	116.705-765
Zurich	91.417-692	1.933-937	41.75-79	5.8542-8806	3.5177-5215	85.631-613	—

U.S. $ in Toronto=111.90-111.94 Canadian cents.
Canadian $ in New York=89.37-40 cents. U.S. $ in Milan 879.70-90.
Sterling in Milan 1,579.75-1,580.75. *Rates for May 26.

EURO-CURRENCY INTEREST RATES

May 26	Sterling	Canadian Dollar	U.S. Dollar	Dutch Guilders	Swiss franc	W. German mark
Short term	—	6½-7½	7⅜-7⅝	4¼-4½	12-12½	3⁵⁄₁₆-3⁵⁄₁₆
7 days notice	—	6½-7½	7½-7¾	4¼-4½	2-2¼	3⁵⁄₁₆-3⁵⁄₁₆
Month	10¼-10⅝	7⅞-7¾	8-8¼	4¼-4½	1⅛-1¼	3⁵⁄₁₆-3⁵⁄₁₆
Three months	10⅝-11	7⅞-8⅛	8-8¼	4⅜-4⅝	1½-1⅝	3⁵⁄₁₆-3⁵⁄₁₆
Six months	11¼-11⅝	8-8⅛	8⅜-8⅝	4⅞-5⅛	1⅞-2	3⁵⁄₁₆-3⁵⁄₁₆
One Year	11⅞-12¼	8⅛-8½	8⅛-8¾	5¼-5½	2⅛-2¼	3⁵⁄₁₆-3⁵⁄₁₆

Euro-French deposit rates: two-day 7⅞-8 per cent; seven-day 7⅞-8 per cent; one month 8¼-8½ per cent; three-month 8⅞-9¼ per cent; six-month 9⅞-9⅞ per cent; one-year 10⅛-10⅛ per cent.

Long-term Eurodollar deposits, two years 8⁹⁄₁₆-8¹¹⁄₁₆ per cent; three years 8¹¹⁄₁₆-8¹³⁄₁₆ per cent; four years 8⅞-8⅞ per cent; five years 8⅞-9 per cent.

The following nominal rates were quoted for London dollar certificates of deposit: one-month 7.40-7.50 per cent; three months 7.85-7.95 per cent; six-month 8.30-8.38 per cent; one-year 8.40-8.50 per cent.

Short-term rates are call for sterling, U.S. dollars and Canadian dollars; two days' notice for guilders and Swiss francs.

FORWARD RATES

[illegible]

INSURANCE, PROPERTY, BONDS

AUTHORISED UNIT TRUSTS

OFFSHORE AND OVERSEAS FUNDS

FINANCIAL TIMES STOCK INDICES

	May 26	May 25	May 24	May 23	May 22	May 19	A year ago
Government Secs.	70.10	70.47	70.42	70.39	70.19	70.45	68.83
Fixed Interest	71.99	72.10	71.95	71.97	71.74	71.99	69.86
Industrial Ordinary	476.1	477.5	474.0	470.6	468.8	470.6	482.8
Gold Mines	152.4	152.9	155.8	155.1	155.2	153.2	110.5
Ord. Div. Yield	5.55	5.52	5.56	5.59	5.62	5.61	5.15
Earnings Yld% (full)	16.52	16.70	16.02	16.98	17.04	17.02	15.78
P/E Ratio (net)	8.15	7.99	7.95	7.88	7.85	7.86	9.19
Dealings marked	5,568	4,479	4,657	4,965	5,040	5,646	6,249
Equity turnover £m.	—	82.32	64.87	69.68	62.46	85.35	70.41
Equity bargains total	—	16,599	15,118	15,314	14,083	15,054	17,500

10 am 475.1. 11 am 474.9. Noon 473.5. 1 pm 474.1.
2 pm 474.2. 3 pm 474.2.
Latest Index 01-246 8026.

* Based on 52 per cent. corporation tax. † Nil=7.97

Basis 100 Govt. Secs. 15/10/26. Fixed Int. 1928. Ind. Ord. 1/7/35. Gold Mines 12/9/55. SE Activity July-Dec. 1942.

HIGHS AND LOWS

	1978 High	1978 Low	Since Compilation High	Since Compilation Low
Govt. Secs.	78.58	70.10	127.4	49.18
Fixed Int.	81.27	71.74	150.4	50.53
Ind. Ord.	497.3	433.4	549.2	49.4
Gold Mines	169.6	150.3	442.3	43.5

S.E. ACTIVITY

	May 26	May 25
—Daily		
Gilt-Edged	144.5	134.6
Industries	204.1	158.2
Speculative	40.0	40.3
Totals	126.7	101.9
5-day Average		
Gilt-Edged	150.0	150.7
Industrials	179.0	179.5
Speculative	36.0	35.7
Totals	113.3	113.7

FT—ACTUARIES INDICES

	May 26	May 25	May 24	May 23	May 22	May 19	A Year ago
Industrial Group	210.38	211.21	209.48	208.20	207.67	208.85	180.81
500-Share Index	235.91	236.04	233.17	232.15	231.50	232.51	206.43
Div. Yield %	5.42	5.39	5.43	5.45	5.47	5.44	5.45
P/E Ratio (net)	8.11	8.10	8.04	8.00	7.97	8.03	9.21
All-Share	215.29	216.31	215.18	214.28	213.29	214.58	188.53

World Wide Growth Management
10a, Boulevard Royal, Luxembourg.
Worldwide Gth Fd | $US14.57 | +0.08 | —

NOTES

Prices do not include $ premium, except where indicated ♦, and are in pence unless otherwise indicated. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b To-day's prices. c Yield based on offer price. d Estimated. g To-day's opening price. h Distribution free of U.K. taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ♥ Net of tax on realised capital gains unless indicated by ♦. ¶ Guernsey gross. ♦ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision.

CORAL INDEX: Close 474-479

INSURANCE BASE RATES

† Property Growth 9¼%
† Vanbrugh Guaranteed 8¼%

† Address shown under Insurance and Property Bond Table.

FT SHARE INFORMATION SERVICE

**BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

**INTERNATIONAL BANK

[illegible]

**CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

U.S. $ & DM prices exclude inv. $ premium

AMERICANS

[illegible]

AMERICANS—Continued

[illegible]

S.E. List Premium 46⅝% (based on US$1.8125 per £)

Conversion factor 0.6813 (0.6807)

CANADIANS

[illegible]

S.E. List Premium 46⅝% (based on $2.0206 per £)

BANKS AND HIRE PURCHASE

[illegible]

Hire Purchase, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

BUILDING INDUSTRY—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

CINEMAS, THEATRES AND TV

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICAL AND RADIO

[illegible]

ENGINEERING MACHINE TOOLS

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

HOTELS AND CATERERS

[illegible]

HOTELS—Continued

[illegible]

INDUSTRIALS

(Miscel.)

[illegible]

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INDUSTRIALS—Continued

[illegible]

INSURANCE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

INSURANCE

[illegible]

PROPERTY—Continued

[illegible]

SHIPBUILDERS, REPAIRERS

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INV. TRUSTS—Continued

[illegible]

Finance, Land, etc.

[illegible]

FINANCE, LAND—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's	P/E
		Parambe 10p	13	674	—	—	—	—
May	Dec.	Park Place Inv.	27	13.3	†1.0	3.6	5.6	6.0
June	Nov.	Pearson (S.) & Son	210	2.5	6.81	3.5	4.9	8.9
May		Pretab7.S. Frs250	£57⅞	16.5	Q9.4%	—	5.1	—
Nov.	July	St. George 10p	10½	2.5	0.48	ϕ	6.9	ϕ
July	Dec.	Scot. & Merc. 'A'	101	28.11	3.02	1.7	4.5	19.6
Nov.	May	S.E. £4¼pc Ann.	£50	17.4	Q4.25	—	8.5	—
March	Oct.	Smith Bros.	57	27.2	t4.91	2.1	13.1	6.0
	—	Stbn. Pac. HK50c	8¾#	—	—	—	—	4.1
June		Suez Fin. NF100	£47	8.6	Q22½	—	6.0	—
April		Trans. Mkt. Tst. 1p	£10½	3.4	‡Q43.02	1.6	‡	‡
Apr.	Aug.	Wstn. Select. 20p	26	13.2	2.1	1.2	12.2	10.7
Mar.	Oct.	West of England	53	13.3	†1.38	3.7	3.9	10.3
Apr.	Aug.	Yule Catto 10p	68	13.3	1.39	3.8	3.1	8.8

OILS

Dividends Paid		Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's	P/E
January		Attock 20p	76	11.7	—	—	—	—
May	Dec.	Brit. Borneo 10p	158xd	15.5	6.74	1.5	6.5	15.2
Nov.	May	Brit. Petrol'm. £1	880	3.4	22.10	4.2	3.8	9.5
Jan.	July	Do. 8% Pf. £1	70	12.12	5.6%	510.9	12.1	—
	—	Burmah £1	72	1074	—	—	—	—
Feb.	Aug.	Do 8½ Ln.91 '96	£61½	3.1	Q8½%	—	e15.4	—
	—	††CCP Nth. Sea £1	875	—	—	—	—	—
Dec.	June	Century 10p	57	28.11	†2.43	3.8	6.5	4.5
	—	Charterhall 5p	24	367	—	—	—	61.7
July		Cie Fr. Petroles B	£21¾	5.7	Q14Ifr.	1.9	8.1	9.5
	—	††Cluff Oil £1	400	—	—	—	—	—
	—	††Clyde Petrol £1	132	—	—	—	—	6.1
	—	Endeavour 50c	19½	—	—	—	—	—
December		KCA	25	20.12	0.1	ϕ	0.6	ϕ
	—	LASMO	162	—	—	—	—	—
Feb.	Aug.	LASMO 14% 1981-83	£103	16.1	Q14%	—	e14.9	—
	—	LASMO "Ops" 10p	366	—	—	—	—	—
	—	Magnet Metals 10c	22	—	—	—	—	—
May		Oil Expl. 10p	240	17.4	2.11	3.0	1.3	34.0
	—	Premier Cons. 5p	16	—	—	—	—	—
	—	Ranger Oil	£23¼	—	—	—	—	—
	—	Reynolds Dv. 1c.	1¼	—	—	—	—	—
Oct.	Apr.	Ryl. Dutch Fl.20	£45¼xd	15.5	Q5.75%	2.4	5.9	7.5
	—	Sceptre Res.	620	—	—	—	—	—
Nov.	May	Shell Trans. Reg.	553	3.4	15.7	4.1	4.3	5.7
Feb.	Aug.	Do. 7% Pf. £1	61	3.1	4.9%	1102	12.4	—
	—	††Siebens (U.K.) £1	437	—	—	—	—	—
Apr.	Oct.	Texaco 4¾% Cnv.	£60	17.4	Q4¾%	—	f8.0	—
Dec.	July	Tricentrol	180xd	15.5	1.32	5.8	1.1	16.4
	—	Ultramar	279	11.65	—	—	—	9.3
Jan.	July	Do. 7pc Cnv. £1	157	3.1	7%	24.5	6.4	—
	—	Weeks Nat. 10cts.	175	—	—	—	—	—
	—	Do Pfd Urd. 10c	175	—	Q15¼c	—	5.2	—
	—	Woodside A50c.	74	—	—	—	—	—

OVERSEAS TRADERS

Dividends Paid		Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's	P/E
May		African Lakes	325	13.3	4.4	19.0	2.0	2.6
June		Aust. Agric. 50c	88	3.5	Q3.5c	1.1	2.5	37.4
Apr.	Oct.	Berisford (S. & W.)	129	13.2	h4.13	4.7	4.8	4.3
Jan.	July	Borthwick (Thos.) 50p	54	12.12	6.2	1.1	18.4	(7.1)
Jan.	July	Boustead (10p)	36xd	15.5	1.50	ϕ	6.3	ϕ
Nov.	June	Finlay (Jas.) 50p	340	31.10	g6.54	7.0	2.9	6.3
July	Dec.	Gill & Duffus	265	2.5	8.71	ϕ	5.0	ϕ
June		Gt. Nthn. £10	£64	2.6	Q12%	2.4	1.9	22.4
Aug.	Dec.	H'ris'ns. Cros. £1	475	31.10	ϕ21.88	3.8	7.0	10.6

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

CENTRAL RAND

[illegible]

EASTERN RAND

[illegible]

FAR WEST RAND

[illegible]

O.F.S.

[illegible]

FINANCE

[illegible]

DIAMOND AND PLATINUM

[illegible]

MINES—Continued

CENTRAL AFRICAN

[illegible]

AUSTRALIAN

[illegible]

TINS

[illegible]

COPPER

[illegible]

MISCELLANEOUS

Dividends Paid		Stock	Price	Last xd	Div Net	Cvr	Y'ld Gr's
	—	Burma Mines 17½p	16	575	—	—	—
Aug.	Feb.	Cons. Murch. 10c	240	3.1	Q30c	2.6	7.5
November		Northgate C$1	350	30.9	—	—	—
Jan.	June	R.T.Z.	222	2.5	9.5	2.8	6.5
	—	Sabina Inds. C$1	40	—	—	—	—
	—	Tara Exptn. $1	£10½	—	—	—	—
Nov.	July	Tehidy Minerals 10p	45	2.5	1.33	ϕ	4.5
October		Yukon Cons. C$1	165	15.9	Q7c	2.9	2.0

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on the basis of net distribution; bracketed figures indicate 10 per cent. or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution. Yields are based on middle prices, are gross, adjusted to ACT of 34 per cent. and allow for value of declared distributions and rights. Securities with denominations other than sterling are quoted inclusive of the investment dollar premium.

- ♠ Sterling denominated securities which include investment dollar premium.
- • "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ** Free of Stamp Duty.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.

[illegible]

"Recent Issues" and "Rights" Page 39

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £400 per annum for each security

REGIONAL MARKETS

[illegible]

Dyson (R. A.) A	34	....	Conv. 9% '80/82	£90⅝	−⅛
Ellis & McHdy	62	....	Alliance Gas	68xd	....
Evans Fr'k. 10p	57¢	....	Arnott	340	....
Evered	16½xd	+½	Carroll (P.J.)	92	+4
Fife Forge	50	....	Clondalkin	93	−3
Finlay Pkg. 5p	24	....	Concrete Prods.	130	−3
Graig Ship. £1	145	....	Heiton (Hldgs.)	41	....
Higsons Brew	82xd	....	Ins. Corp.	148	....
I.O.M. Stm. £1	150	....	Irish Ropes	120xd	....
Holt (Jos.) 25p	263	....	Jacob	67	....
Nthn. Goldsmith	55	....	Sunbeam	33	....
Pearce (C. H.)	155xd	....	T.M.G.	170	−10
Peel Mills	20	....	Unidare	90	....
Sheffield Brick	46xd	....			

OPTIONS

3-month Call Rates

Industrials					
A. Brew	6½	I.C.I.	20	Tube Invest.	30
A.P. Cement	18	"Imps"	6	Unilever	35
B.S.R.	9	I.C.L.	20	Utd. Drapery	7½
Babcock	11	Inveresk	8	Vickers	15
Barclays Bank	25	KCA	3	Woolworths	5
Beecham	35	Ladbroke	17	**Property**	
Boots Drug	15	Legal & Gen.	14	Brit. Land	3¼
Bowaters	16	Lex Service	7	Cap. Counties	4½
B.A.T.	24	Lloyds Bank	22	E.P.	5
British Oxygen	6	"Lofs"	4	Intreuropean	4
Brown (J.)	20	London Brick	5	Land Secs.	16
Burton 'A'	12	Lonrho	5	MEPC	12
Cadburys	5	Lucas Inds.	25	Peachey	8
Courtaulds	10	Lyons (J.)	20	Samuel Props.	9
Debenhams	8	"Mams"	7	Town & City	1¼
Distillers	15	Mks. & Spncr	10	**Oils**	
Dunlop	7	Midland Bank	25	Brit. Petroleum	45
Eagle Star	11	N.E.I.	12	Burmah Oil	5
E.M.I.	14	Nat. West. Bank	22	Charterhall	3
Gen. Accident	17	Do. Warrants	10	Shell	28
Gen. Electric	18	P & O Dfd.	8	Ultramar	20
Glaxo	40	Plessey	8	**Mines**	
Grand Met.	9	R.H.M.	5	Charter Cons.	12
G.U.S. 'A'	20	Rank Org. 'A'	18	Cons. Gold	14
Guardian	18	Reed Intnl.	12	Rio T. Zinc	16
G.K.N.	22	Spillers	9		
Hawker Sidd.	20	Tesco	4		
House of Fraser	12	Thorn	22		
		Trust Houses	15		

FINANCIAL TIMES

Tuesday May 30 1978

Comecon 'tyre dumping' protest

By Terry Dodsworth, Motor Industry Correspondent

BRITISH TYRE manufacturers intend to present the EEC with an "anti-dumping" plea against East European products within the next few weeks.

The move follows mounting criticism within the industry about the unusually low wholesale prices of Eastern bloc car tyres being imported into Britain.

Some East German tyres are said to be coming into the country at a price of £4.80 each, less than the cost of manufacturing in Britain.

Anxiety over the problem has been increased by the sharp rise of imports this year from the Comecon area which has coincided with a spate of short-time working and redundancies in the industry. Only a few weeks ago, Goodyear cut its workforce by about 400.

The British Rubber Manufacturers' Association, which represents the big manufacturers in Britain, has already taken up the issue with the Trade Department.

Under the terms of new Common Market regulations, however, the matter now has to be presented to the EEC in Brussels.

Mr. Reg Byford, director of the BRMA, claimed yesterday that the imports were a "fairly clear case," and said the Association would be aiming to bring all Eastern European tyres under the scope of the complaint.

Comparison

For the application to succeed, the Association must now show that the tyres are being brought into the country at less than a fair market price. The usual procedure for cases dealing with Comecon countries is to compare them with products from free market economy countries.

In addition, the Association must prove that the imports have arrived in sufficient numbers to have damaged the domestic industry.

According to association figures, Eastern European tyres captured about 500,000 sales in the UK replacement market last year, or 4 per cent of the total of 13m sales.

These imports have been joined by an increasing number of competitively priced products brought in from the Continent, where the tyre industry is also suffering from over-capacity.

The result has been fierce price-cutting in the industry and the erosion of profit margins which have been under pressure in the UK in any case.

At the root of these problems lies slower growth in the motor industry, compared with the forecasts of the pre-oil crisis period when much of the present plant was put down, combined with the development of much longer-lasting tyres.

Tories press leaders for unions policy

BY PHILIP RAWSTORNE

CONSERVATIVE MPs are to press the Shadow Cabinet for a definitive statement on the party's policy toward industrial relations and the trade unions.

Influential backbenchers will warn Mrs. Margaret Thatcher that such a move is vitally urgent if the party is to avoid serious political damage in the run-up to the General Election.

Conservative leaders will be advised to get down to the task next week of reconciling their differences over the party's approach to the issues.

The rift over trade union policy has haunted the Tories since their defeats at the polls in 1974 and has repeatedly presented Labour with an easy political target.

Now, after the political embarrassment suffered from leakages of two party reports envisaging conflict between a future Tory Government and the unions, Tory MPs are demanding that the policy should be clarified.

Though the party leadership has deliberately shunned detailed policy commitments, both Right-wing and liberal Tories believe that it must set out its position in a full statement of intent.

Sir Keith Joseph and Mr. James Prior have already issued a joint defence of the report of the party's policy group on the nationalised industries which was leaked to the Economist.

This report, drafted by Mr. Nicholas Ridley, a radical Right-wing Tory MP, made proposals for denationalisation and listed the unions which a Tory Government could take on in a showdown.

Ministers vigorously attacked the report. It followed leakages from an earlier report by Lord Carrington, who also examined possible tactics in any conflict with the unions.

Mr. Eric Varley, the Industry Secretary, called the Ridley report "a blueprint for industrial civil war." Mr. Anthony Wedgwood Benn, the Energy Secretary, accused the Tories of wanting to dismantle the Welfare State, and said that the report spelled out confrontation with the unions with the precision of a military campaign.

In their joint statement in reply, Sir Keith and Mr. Prior said that the report merely set out options for discussion.

They added: "Of course we want industrial peace, but not on terms dictated by union leaders alone, and damaging to the real interests of their members and of the country."

That was why it was right "to consider how to protect the vulnerable if there were to be misuse of union power," they said. The denationalisation proposals by the policy group showed that the Conservative Party had "an open and creative mind."

The statement, however, did little to satisfy many Tory MPs that the party would not continue to be highly vulnerable to political attacks.

In the nervous atmosphere already created by Labour's recent rise in the opinion polls, liberal Tories also expressed anxiety yesterday about a report that Mrs. Thatcher had removed Mr. Christopher Patten, the moderate head of the party's research department, from his other job as secretary to the Shadow Cabinet.

Mr. Patten's successor will be Mr. David Wolfson, a member of the Great Universal Stores family, who has joined the staff of Mrs. Thatcher's private office.

Sir Keith and Mr. Airey Neave strongly denied that they had been involved in any way with the move.

The official explanation is that Mr. Patten, who retains his research department post, is being relieved of some of his work load to enable him to prepare to fight as the party's candidate for Bath in the General Election.

Post Office to repay foreign loan

BY JOHN LLOYD

THE POST OFFICE is to repay a second major foreign loan ahead of schedule. It will pay back $200m. to the First Chicago merchant bank three years before the loan falls due in June 1981.

This is the second American loan to be repaid by the corporation in recent months.

In March, the Post Office repaid a $100m. loan to the Chase Manhattan bank, also three years ahead of schedule.

Both repayments are in line with the general Government policy of bringing forward the repayment of Government and nationalised industry debt, to ease the burden on the peak repayment years in the early 1980s.

The First Chicago loan, agreed in June 1976, was an expensive one, at 1½ per cent above the market rate.

It brings the total Post Office foreign debt down to around £600m, the bulk of which is owed to American and German banks.

The corporation is looking at other possible early repayments on foreign loans, as well as on its debt to the National Loan Fund, which stands at around £3.3bn.

It is also understood to be seeking to re-schedule some loans which fall due around 1982.

The immediate savings from the early repayment of the First Chicago debt are between £30m and £40m.

The Post Office's ability to repay is a reflection of its present position of being wholly self-financing, a position it hopes to maintain in the current year.

Post Office executives think the corporation fortunate in having agreed financial targets—of 6 per cent on net assets before interest payments for the telecommunications business and 2 per cent of turnover for the postal business—which allow it to divert any surplus to early repayments.

However, it is recognised that there are a number of uncertainties in the near future.

The Post Office Engineering *Union, with 125,000 members,* has still to agree a pay settlement.

More seriously, there is as yet no resolution on the engineering union's claim for a 35-hour week, estimated to cost around £100m to implement.

A compromise 37½-hour week, thought to be a possibility, would still cost around £50m. above the cost of the pay settlement.

THE LEX COLUMN

Conflicts within the company

Traditional economic theory takes a highly formalised view of the company as run by a profit-maximising entrepreneur hiring and firing labour freely, and selling into an open market. This is quite different to the real world, in which public companies are run by managements only loosely controlled by the shareholders, while the interests of the employees are heavily protected.

A new book* by Gerald Newbould and George Luffman probes deeply into the motivations and achievements of real companies. It is not enough, the authors argue, to talk about success in terms of the simple maximisation of profits. Different interest groups within—and outside—companies have different aims, and success must be measured on different criteria.

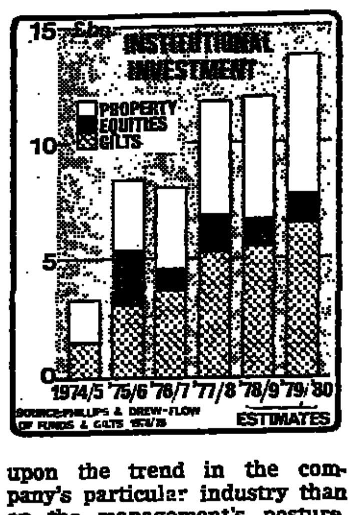
Measuring success

On this reasoning, four groups are identified: shareholders, managers, employees and the public at large (the last being a rather woolly concept, which seems to be equated with the UK economy). Four specific ways of measuring success according to the interests of each group are then devised: for instance, success for shareholders is defined in terms of the overall rate of return on an investment in the shares, the change in the share price, the relative stability of dividends, and the change in the return on capital employed.

Armed with these 16 criteria the authors have embarked on a major statistical study of the results of large companies for the period 1968-75, the starting date reflecting the availability of additional information following the 1967 Companies Act. Originally the 500 largest quoted companies were selected, but after seven years only 302 companies had survived acquisition, bankruptcy or data problems. For each company over 100 items of data were collected and used to measure "success."

At this point, however, an important assumption has to be made: that business policies actually *matter*. Arguably, success or failure for companies depends to a large extent on sheer chance rather than on specific management decisions, or executive ability. And when it comes to assessing the success of particular policies, it is not always clear whether any conscious commitment was ever made by the management.

So the authors have arrived at something of a mixed bag in choosing seven key areas of business policy to trace the relationship between strategy and performance. Of these areas, acquisition, diversification, ex*porting and reliance* on internal financing seem to reflect fairly specific corporate decisions, but automation might depend more



upon the trend in the company's particular industry than on the management's posture.

As for profitability and remuneration policy, companies which have achieved high profits growth or paid low wages to workers have not necessarily planned for these results.

These quibbles apart, some clear and sometimes striking results emerge from the study. An active acquisition policy, for instance, turned out to be beneficial only to managers, in the sense that the size of their empires increased. Shareholders did badly; the 93 companies out of 302 classified as having a heavy commitment to acquisition performed clearly worse than unacquisitive companies in terms of share price and overall return to the investor. Employees appeared to get lower pay increases in the 93 aggressive companies, and there was no very clear impact on the national economy.

Diversification did rather less damage, perhaps because in many cases it was achieved by internal expansion rather than by acquisition. Interestingly, the more diversified a company was at the start of the period the more likely it was to diversify further over the next seven years. The major result of diversification, not surprisingly, was to bring greater stability to the company's profits—treated in the book as a mark of success for the management. But there was no evidence of any benefits to shareholders, or indeed to employees or the economy. The authors suggest that diversification is just something that companies do with surplus cash, rather than return it to shareholders.

Exporting turned out to be a big disappointment. During the period in question, despite devaluations, it was associated with poor management results, with a weak share price performance, and with a shrinking number of jobs (though there was no obvious adverse pattern in the trend of pay).

Elsewhere, the authors conclude that it is clearly detrimental to the interests of managers to rely on internal financing, and therefore they are not likely to be tempted to avoid the disciplines of the capital market. They might have added that those "disciplines," judging by many of the successful rights issue candidates of recent years, are scarcely onerous.

Merger mania

Inevitably, results obtained in this way for a limited period of years must be treated carefully. The early 1970s brought a *particularly large batch of* expensive and foolish mergers, and it would be wrong to be too harsh in judging takeovers that came before or have happened since. Moreover, a number of chickens came home to roost around 1975. A list is included of the 34 companies in the sample which were above average on all four managerial measures of success: along with Beecham, GEC and Thorn it embraces Burmah Oil, J. Lyons and Ozalid.

The book is a fascinating attempt to shed statistical light upon the shadowy area of corporate policymaking. But maybe it is rather more of a historical work than the authors would readily accept.

* Successful Business Policies by Gerald D. Newbould and George A. Luffman. Gower Press, £9.50. 229 pages

Profitability of oil fields hit as development costs rise £215m

BY RAY DAFTER, ENERGY CORRESPONDENT

THE PROFITABILITY of two important North Sea oil fields has been hit by a £215m increase in development costs.

The oil exploration consortium, led by the Occidental group, faces higher costs on the Piper and Claymore fields at a time when the recoverable reserves are being downgraded, says a report published by stockbrokers Wood Mackenzie.

Claymore's profitability has been affected most by the changes. The discounted cash flow rate of return has dropped from 39.3 per cent to 29 per cent, the brokers estimate.

Capital expenditure estimates for the field have increased from $620m to $790m. The partners—Occidental (36.5 per cent), Allied Chemical (20 per cent), Getty (23.5 per cent) and Thomson Organisation (20 per cent)—expect to spend $100m of this additional money this year.

The money is needed for improving living quarters, and providing new facilities to reduce noise and comply with new Government regulations on pollution and safety.

Next year, the Occidental group might spend $75m on a new semi-submersible maintenance and diving support vessel and $30m of this cost could be allocated to the Claymore Field.

The remainder of the extra Claymore expenditure will go towards drilling costs.

Wood Mackenzie reckons that the rate of build-up in Claymore's production will be slower than expected with output this year averaging 60,000 barrels a day instead of 100,000 b/d.

Although peak production, at 150,000 b/d could last only 18 months, the period of decline will be longer than previously forecast. As a result, the field is not expected to cease production until 1999 rather than 1991.

Even so, the extra costs, together with the official reduction in Claymore's estimated recoverable reserves (from 410m barrels to 404m barrels), will significantly reduce profitability.

The Occidental group's sister field, the nearby Piper reservoir, *is also smaller than past forecasts* have suggested—618m barrels instead of 800m barels.

Likewise the estimated development costs have also risen, from $750m to $970m.

Attractive

However, the brokers' new estimate of Piper's profitability—a discounted cash flow return of 49.5 per cent as opposed to a previous estimate of 54.2 per cent—still makes it one of the most attractive fields in the North Sea.

About $100m of the extra costs will go towards enlarging platform accommodation, reducing noise and increasing safety and anti-pollution standards. The increase also takes account of the cost of removing one of two drillings rigs now sinking development wells.

In addition, about $45m has been earmarked by the brokers for Piper's share of the proposed maintenance and support vessel with a further $25m allocated for drilling six more development wells.

The cost of a 16-inch pipeline to carry natural gas between Piper and Claymore (about $55m) has also been included in the new estimate.

Piper is expected to reach peak *production later this year, giving* an average production rate for the year of 250,000 to 300,000 b/d.

On the wider front, Wood, Mackenzie has reduced its estimate of average UK North Sea oil production this year from 1.4bn to 1.2bn barrels a day.

Bad weather, equipment problems on the Argyll Field and a slower-than-expected build-up in production on a number of fields, are blamed for the revised estimates.

OECD talks aim to boost demand

BY ROBERT MAUTHNER

PARIS, May 29.

THE LEADING Western industrialised countries began a two-day meeting here today to discuss concerted measures to give a moderate boost to demand in view of the increasingly pessimistic forecasts of world economic growth in the next 12 months.

Senior officials of the 24 OECD countries received a report by the organisation's secretariat which foresee an overall growth for the area this year of 3.5 per cent at best and a sharp increase in unemployment to 17.5m—500,000 more than originally forecast—unless rapid stimulatory action is taken.

Prospects are particularly dim for West Germany, one of the world's strongest economies, which, together with Japan, is blamed by many of its partners for not providing a big enough stimulus to the world's economic growth.

According to the secretariat's forecasts, West German GDP is unlikely to increase by more than 3 per cent this year unless the Bonn Government gives a substantial boost to domestic demand.

The prospects for Japan are considered to be somewhat better following the expansionary measures taken by the Government, though these still fall considerably short of Tokyo's own target of around 7 per cent.

The secretariat has revised upwards its original prediction of 4.5 per cent growth for the Japanese economy to 5.5 per cent.

The West Germans, however, are unlikely to agree during the present meeting to adopt more expansionary policies.

If the Bonn Government has something up its sleeve, as a number of recent statements by its officials indicate, it is assumed here that it will want to wait until the Western economic summit in Bonn in July before announcing any new measures.

Though supporting in principle the OECD's concerted growth strategy, under which both the strongest economies and the so-called "convalescent" countries would give a moderate boost to demand, West Germany and Japan are sceptical about the precise programme tabled by the secretariat to-day.

It has indicated that raising demand by 1.5 to 1.75 per cent of GDP by Japan, 0.75 to 1 per cent by West Germany, 0.25 to 0.5 per cent by France and Italy and 0.25 per cent at the most by the UK and Canada, would produce an average increase in the OECD area's growth of 1.25 per cent by the second half of 1979.

Thus, instead of expanding by only 3.25 to 3.5 per cent this year if present policies remain unchanged, the OECD area's growth would rise *to about* 4.5 per cent at an annual rate by the middle of next year, enough to prevent a further deterioration in the employment situation.

The balance of payments effects of the secretariat's concerted action policy would also be substantial. The US current account deficit which, according to revised OECD forecasts is expected to rise to $24bn this year, more than $6bn greater than originally forecast, would improve by $5bn by the middle of next year.

West Germany's surplus would decline by $4.5bn, Japan's by $3.5bn, while the UK's surplus, forecast at $2bn for this year by the secretariat, would remain unchanged.

Italy's current account would *improve by $0.5bn, but France's* payments deficit would deteriorate by a further $1bn.

The effect on the OECD area as a whole, which is expected to have a payments deficit of $17bn this year, down from earlier forecasts of between $18bn and $20bn, would be a deterioration of $2bn.

Continued from Page 1

Workers' co-operatives

Agency envisaged in a Bill now going through Parliament should be given a budget of £300m instead of the "pitiful £300,000" now proposed. This would allow it to invest in new co-operative ventures the same way that the National Enterprise Board operated.

Steel, shipbuilding and aerospace were probably the last manufacturing industries any Labour Government would want to nationalise in the form of a single-product, single-management structure, he maintained.

The future prime industrial and commercial candidates for public ownership did not lend themselves to that sort of organisation. In his opinion, the whole Labour movement should now carefully re-examine its thinking in regard to management concepts and "straight orthodox nationalisation" should be replaced by "forward-looking systems of co-operative self-management."

It was no longer possible for any country to nationalise that piece of a multi-national company which lay within its State boundaries without access to a company's marketing and research resources.

But what was possible, Mr. Atkinson claimed, and was in his view highly desirable, was to convert the national element into a "labour, plant and machinery co-operative as a means of extending industrial and economic democracy."

CBI sees hardly any sign of manufacturing revival

BY MICHAEL CASSELL

THERE IS still no evidence of any significant revival in U.K. manufacturing output, according to the latest monthly trends inquary conducted by the Confederation of British Industry.

But the inquiry, carried out during the early part of May and involving nearly 2,200 companies, shows some overall improvement in the volume of total orders and slightly increased expectations about output over the next four months.

The CBI says that none of the indicators points to any rapid growth for manufacturing production in the months ahead.

According to the May survey, only 14 per cent of the companies responding reported above-normal order books while 42 per cent said they were lower than normal. At the same time, export orders were higher than usual for 16 per cent of companies but below normal for 45 per cent.

The CBI says that while this represents some improvement from the previous month in home and overseas orders, order books generally remain weak. Improvements had been in companies employing fewer than 5,000 people, with the largest organisations showing no recovery.

The survey also showed that stocks of finished goods were regarded as adequate or more than adequate by 89 per cent of companies, much the same as in April, although the percentage of companies describing their stocks as more than adequate had risen further.

An increase in output volume over the next four months is expected by 32 per cent of companies in the survey, while 13 per cent believe they will fall further. This picture represents a marginal improvement over expectations recorded in April.

On price rises, the outlook continues to be encouraging, with just under half the companies involved expecting the average prices at which domestic orders are booked to rise over the next four months.

Weather

MOSTLY dry, sunny and hot.

London, Cent.S and N. England, Midlands
Dry and sunny. Max. 24C (75F).

S.E. England, E. Anglia
Cloudy early, then sunny. Max. 23C (73F).

E. and N.E. England, Edinburgh, Dundee, Aberdeen, Glasgow, Highlands, Moray Firth, N.E. Scotland
Dry, sunny. Max. 23-25C

Channel Isles, S.W. England, S. Wales
Dry and sunny. Max. 24C

N. Wales, N.W. England, Lakes Isle of Man, S.W. Scotland, N. Ireland
Dry and sunny. Max. 23-26C

Argyll, N.W. Scotland, Orkney, Shetland
Mostly dry, some cloud in W. Max. 20C (68F).

Outlook: Little change.

BUSINESS CENTRES

		Y'day mid-day °C	°F			Y'day mid-day °C	°F
Alexandria.	S	29	84	Lisbon	S	21	70
Amstdm.	S	20	68	London	S	21	70
Athens	S	26	79	Luxemb'g	S	21	70
Barcelona	S	29	84	Madrid	F	19	66
Beirut	F	26	79	Manchstr.	S	23	73
Belfast	S	22	72	Milan	S	24	75
Belgrade	F	19	66	Moscow	S	23	73
Berlin	F	25	77	Munich	F	19	66
Brmghm.	S	20	68	Newcastle	S	22	72
Bristol	S	21	70	Oslo	S	23	73
Brussels	S	24	75	Paris	S	24	75
Budapest	F	17	63	Prague	F	21	70
Cardiff	S	20	68	Reykjavik	C	7	44
Cologne	F	23	73	Rome	F	23	73
Copnhagn.	S	24	75	Stockholm	S	22	72
Dublin	S	18	64	Strasbrg.	S	23	73
Edinburgh	S	22	72	Tel Aviv	S	26	79
Frankfurt	S	23	73	Vienna	F	19	66
Geneva	S	20	68	Warsaw	F	22	72
Glasgow	S	25	77	Zurich	S	22	72
Helsinki	S	20	68				

HOLIDAY RESORTS

		Y'day mid-day °C	°F			Y'day mid-day °C	°F
Ajaccio	S	20	68	Jersey	S	20	68
Algiers	S	21	70	Las Plms.	S	21	70
Biarritz	S	22	72	Locarno	S	21	70
Blackpool	S	22	72	Luxor	S	46	115
Bordeaux	S	21	70	Majorca	S	22	72
Boulogne	S	20	68	Malaga	S	20	68
Casablnca.	F	20	68	Malta	S	22	72
Corfu	F	23	73	Naples	F	22	72
Dubrvnk.	Th	18	64	Nice	S	21	70
Faro	S	20	68	Nicosia	C	23	73
Florence	F	24	75	Oporto	C	14	57
Funchal	C	19	66	Rhodes	F	25	77
Gibraltar	S	20	68	Salzburg	F	16	61
Guernsey	S	18	64	Tangier	S	23	73
Innsbruck	R	16	61	Tenerife	F	17	63
Inverness	S	19	66	Tunis	C	22	72
Isle of Man	S	17	63	Valencia	Th	16	61
Istanbul	C	20	68	Venice	S	22	72

S—Sunny. F—Fair. Th—Thunderstorm. C—Cloudy. R—Rain.

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